

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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D 8523 B

Electronic markets:
City of London
draws a line, Page 14

World news

Business summary

Tripoli quiet as Syrians move in

Syrian troops and tanks have entered Tripoli as warring militias handed over heavy weapons under a ceasefire ending three weeks of fighting.

Four battalions of Syrian troops deployed in several areas of the port city when Muslim fundamentalists and rival left-wingers began handing over their big guns at Syrian-controlled depots.

The Syrians are expected to take up positions throughout the city but eyewitnesses said the troops were having difficulty penetrating the fundamentalists' bastion in the Abu Samra area, scene of some of the fiercest fighting. Page 5

Raid protest
Hundreds of thousands of people demonstrated in Baghdad and other Iraqi towns to protest against the Israeli raid on the headquarters of the Palestine Liberation Organisation in Tunis last Tuesday.

Parties close ranks
Belgium's two Social Christian parties have closed ranks in advance of next Sunday's general election with a pledge not to join the Socialists in a coalition government.

Farm aid appeal
France's Agriculture Minister Henri Nallet has announced emergency measures to aid farmers in the country, hit by the worst drought for nearly 10 years, and appealed to EEC partners for help.

Tutu on violence
Desmond Tutu, Anglican Bishop of Johannesburg, said in London he was close to endorsing a scheme to overthrow South Africa's white-minority government.

Banker summoned
Dr Emilio Cuccia, 77-year-old former chairman of Mediobanca, the Milan merchant bank, has been summoned to appear before a Rome magistrate to discuss allegations of his involvement in misappropriation of funds from Italy's IRI state holding company. Page 2

Israel reviews ties
Israel is reviewing its relations with Egypt after the weekend murder on the Sinai coast of seven Israeli tourists, including four children. Page 3

23 die in rail crash
At least 23 people were killed and 54 injured when a train slammed into a bus at a level crossing in Gauthi, capital of Assam state in north-east India.

E. German flees
A 44-year-old East German man fled across the Baltic Sea in a rubber dinghy to West Germany.

Mexico rescue ends
Exhausted rescue workers in Mexico City have abandoned their bid to save a 9-year-old boy thought to have died in the ruins of his family's home since an earthquake 17 days ago.

Art raid
Thieves broke into Rome's Capitoline museum, which houses the world's oldest collection of sculptures, and stole two late 17th century oil paintings valued at around £60m (\$94,000).

Alfonso-Steel talks
President Raul Alfonsín of Argentina and British Liberal Party leader David Steel have agreed on the need to resume talks on the Falkland Islands dispute. Page 2

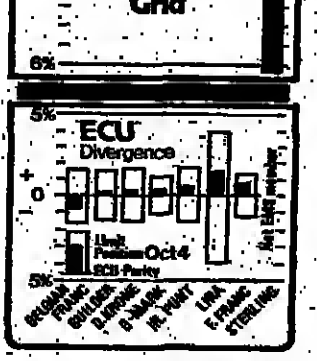
Rainbow Quest's Arc
Prix de l'Arc de Triomphe at Longchamp, Paris, was won by British horse Rainbow Quest. It finished a neck behind odds-on favourite French horse Sagace, but jockey Pat Eddery successfully objected on the ground of interference by Sagace.

Oil stocks at lowest level for 9 years

WESTERN world's oil stocks are at their lowest level since 1976, the International Energy Agency said in its monthly oil report. Page 16

TOKYO share prices rose on Saturday, with interest focusing on biotechnology-related issues. The Nikkei Dow index rose 35.83 to 12,750.88.

EUROPEAN Monetary System: Currencies showed a sharp improvement against the dollar during the week but were little



changed in value as measured in terms of the European Currency Unit.

Weaker members such as the Belgian franc received support through central bank intervention with the Belgian authorities spending the equivalent of BEF 14.5bn according to the latest available figures, which covered the week up to September 30.

Speculation continued over the possibility of sterling's full participation in the system although the value of the pound has failed to attract any consensus.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 24 per cent.

The lower chart shows each currency's divergence from the "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

FRENCH banks and stockbrokers are to be allowed to carry out jobbing functions on the French securities market under an agreement to boost liquidity in Paris stocks and bond trading.

EUROBOND investors have shown a surge of enthusiasm for floaters, with issues last week in dollars, sterling, yen and D-Marks all meeting good receptions. Page 17

UK SALES of commercial vehicles rose by 27.44 per cent in September compared with the same month last year. Sales totalled 25,405 against 19,935 previously. Page 8

AMERICAN Telephone & Telegraph (AT&T), U.S. long-distance telephone company, has been given the go-ahead by the Federal Communications Commission (FCC) to offer a wide range of discount services. Page 19

MONTEDEISON, Italian chemicals, health care and energy group, is holding talks with ENI, the state energy group, about a sale of petrochemical assets to Enichem, a subsidiary of ENI. Page 19

BRITISH SUGAR, UK beet sugar monopoly, said it would be condemned to stagnation if it does not win a big EEC production quota next year. Page 8

PAG, Kugelfischer Georg Schaefer, family-controlled West German concern and one of Europe's top bearings manufacturers, is planning its first-ever public share issue later this month. A nominal DM 80m (\$30.7m) of the company's basic capital will be made available in the form of bearer shares with voting rights. Page 17

UK's Central Electricity Generating Board has rebuilt its coal stocks to near the levels before the year-long miner's strike of 1984-85. Page 7

Cautious welcome for U.S. plan on Third World debt

BY JUREK MARTIN AND STEWART FLEMING IN SEOUL

MR JAMES BAKER, U.S. Treasury Secretary, is set tomorrow to unveil a package tailored to make more funds available to the most heavily indebted developing countries.

Among the measures, Mr Baker will signal U.S. acceptance of the need for a general capital increase for the World Bank and the provision, on a case-by-case basis, of World Bank guarantees for commercial bank lending in an effort to supplement increased official financial flows.

However, ministers convening for the annual meetings of the World Bank and the International Monetary Fund (IMF) fear that the U.S. initiative, while broadly welcome, may do little in practice to address the deteriorating debt situation, especially in Latin America, given the uncertain prospects for the global economy.

Among others, British officials pointed out that the U.S. was coming under increasing pressure from the other leading industrialised nations to take decisive action to cut its budget deficit - still running at annual rates of \$200bn. Not least because of the continuing high level of U.S. interest rates.

In particular, there is a genuine fear that the New York agreement of September 22 to drive down the value of the dollar could be under-

mined by the failure of the U.S. to tackle the fundamental economic imbalances in its economy.

British officials said that improvement of exchange rates and the balance of payments would not help if the fundamentals remained "out of kilter. We are all worried that in the last resort if they do not get a sensible and timely solution (to the deficit) there are only two alternatives - recession or inflation."

The broad outlines of the U.S. plan to revise the debt strategy as outlined by Mr Baker to the IMF's Interim Committee yesterday are:

- "The adoption by principal debtors of comprehensive macro-economic and structural policies supported by the international financial institutions to promote growth and balance of payments adjustments and to reduce inflation;

- "A continued central role for the IMF, in conjunction with increased and more effective structural adjustments leading to the revitalisation of development banks, both in support of the adoption by principal debtors of market-oriented policies for growth;

- "Increased lending by the private banks in support of comprehensive economic adjustment programmes. Officials say that the U.S. is hop-

ing to halt the decline in commercial bank lending to developing countries and generate about \$20m-\$30m of net new private loans to Third World countries over the next three years. Among commercial bankers, however, there is still great reluctance to lend more money and profound scepticism about how such a plan could be implemented.

The World Bank's enhanced role will include an effort to try and double to \$20bn its lending in Latin America over this period.

Governments are also expected to endorse a U.S. plan to increase lending to the poorest countries, such as those in sub-Saharan Africa, through a \$5bn joint World Bank-IMF funding package which involves in part re-directing repayments to the \$2.7bn IMF Trust Fund to these countries.

Behind the modifications of the strategy for tackling the debt problem lies the recognition, officials say, that dependence on IMF adjustment or austerity programmes, is not enough.

As Mr Baker indicated in his statement, the aim is to try and move to a more growth-oriented

Continued on Page 16
IMF annual meeting, Page 4;
Editorial comment, Page 14

Waiting for Godot in Seoul

SAMUEL BECKETT should have been in Seoul this weekend. Far from merely having two beggars under a lamppost waiting for Godot, he would surely have been inspired by the sight of hundreds of international financial luminaries doing little more than hanging around the elegant halls of the Hilton Hotel waiting for a gentleman from Texas by the name of James Baker, writes Jurek Martin in Seoul.

Unlike Godot, the U.S. Treasury Secretary made it. Humble literary talents than Beckett were grateful for this because before he arrived their notebooks had been singularly devoid of the pithy quotes and epigrams that normally flow like wine (or, in Korea, *soju*) before the annual International Monetary Fund - World Bank extravaganza.

The real problem was that very few knew in advance what Mr Baker had up his sleeve, and those few who did were not talking. The British, who apparently had been briefed, smiled knowingly and said it was "ingenious". The Argentines, less fortunate perhaps, thought the U.S. still had "only very general ideas". The Japanese were delicately opaque.

Not that there was a shortage of clichés. One of the better ones was that Mr Baker was going to propose a "broad-gauged approach", which, to some, suggested an artificial recognition that the global debt problem was at least on a par with the deficits of the Brazilian and Japanese railway systems.

Some key individuals appeared totally discombobulated. Mr A. W. Clausen, whose future as World Bank president hangs on Mr Baker's word, was reported to have discarded the uplifting Jeffersonian ending to his address tomorrow and to be trying instead with a John Deere conclusion (rumours that he was studying LBJ's famous TV address on videotape were, however, denied).

Mr Jacques de Larosiere, the IMF's managing director, even mislaid the Treasury Secretary on Saturday night. At least that appeared to be the case when he strode purposefully into the wrong room of a Chinese restaurant, in which indeed the Group of Five finance ministers were meeting, only to be confronted by a round of Japanese.

"We are always very pleased to see Mr de Larosiere, even if only briefly," one of the Japanese happily observed.

Continued on Page 16

Thatcher will try to dispel policy doubts

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MRS Margaret Thatcher, the British Prime Minister, will this week seek to regain the political initiative for the Government by setting out its major policy objectives for the rest of the decade and into a third term in office.

She will give the usual closing address on Friday to the Conservative Party conference which opens tomorrow in Blackpool amid unprecedented security precautions following the bombing at the Brighton conference a year ago.

Mr Norman Tebbit, the new Conservative Party chairman, said yesterday that the electorate was no longer quite sure of the Government's long-term aims and of where current policies were going to lead in 10 years.

After the achievements of the past six years, he said, people were uncertain of the Government's future direction and did not see that "we have that thrust of reforming radicalism we had in 1979." He said there was no question of "going quiet".

Mrs Thatcher will seek to answer these doubts on Friday while Mr Tebbit, who is assured of a very

warm welcome after his and his wife's ordeals in the Brighton bombing, will attack the opposition parties during his chairman's report tomorrow.

Mr Tebbit said he intends to focus on divisions within the Social Democratic/Liberal Alliance and to try to brand social democrats leaders as left-wing by quoting what they said as Labour ministers in the late 1970s. He will also attempt to puncture Labour's revival. After praising Mr Neil Kinnock's "extremely good speech" at the Labour Party conference last week he said the Labour leader had not carried the major conference votes.

Party managers face the embarrassment that considerable attention may be devoted in the mass circulation daily newspapers and by television to the imminent memoirs of Miss Sara Keays, the former mistress of Mr Cecil Parkinson. Her revelations about their relationship forced his resignation as Trade and Industry Secretary two years ago.

Mr Tebbit yesterday angrily dismissed the diaries as "trivia and

Continued on Page 16

Paribas poised to control UK broker

BY JOHN MOORE IN LONDON

PARIBAS, the French state-owned banking group, is poised to take control of Quilter Goodison, a leading London stockbroker which is headed by Sir Nicholas Goodison, chairman of the London Stock Exchange.

The move will represent the second important deal that Quilter Goodison has been involved in since the start of the upheaval in London's financial community more than two years ago. The deal with Paribas is expected to be concluded in two months.

Last year, Quilter Goodison forged a link with Scania, the Swedish insurance group, which acquired a 29.9 per cent stake in the firm for an undisclosed price.

Since then there has been speculation that Quilter Goodison has been looking for another partner in an effort to find more capital, which is needed for its participation in the remodelled British securities market.

Sir Nicholas and the senior management at Quilter Goodison have decided that they need a substantial banking interest behind them

for the future operation of the firm which is prepared to take full control. Quilter Goodison is understood to have been nervous about the backing some of its competitors were to receive following their link-ups with banking interests in the UK.

Scandia is understood to be prevented from increasing its stake further in Quilter Goodison under Swedish law, which prevents insurance groups from holding controlling interests in non-insurance concerns.

In the proposed deal with Paribas, the first significant deal carried out by French interests in the financial services revolution in London, the French bank would acquire Scania's existing shareholding. As an outside group, under stock exchange rules, Paribas would be allowed to increase its stake to 100 per cent next March.

Mr John Davies, of Quilter Goodison, said yesterday: "I can confirm that discussions are taking place which will lead to Paribas taking 100 per cent control."

Democrats back Reagan goal on balanced budget

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

DEMOCRATIC Congressional leaders have accepted the goal of balancing the U.S. budget by 1991, as laid down in a new deficit-cutting scheme endorsed by President Ronald Reagan on Friday.

The Democrats, however, were yesterday still strongly resisting a Republican bid to insist the plan through the Senate as an amendment to urgently-needed legislation raising the national debt ceiling to over \$2 trillion (million million) for the first time. The Government will technically run out of funds today if this measure is not passed.

With the Senate meeting in an unusual Sunday session yesterday, Senator Robert Byrd, the Democratic minority leader, said that the Democrats had no doubt about the need for legislation to mandate a balanced budget. "It's not a question of if or whether but how," he said.

Mr Byrd insisted, however, that the Democrats were not prepared "to buy a pig in a poke with a cooked pistol at our heads". The Democrats said that they must

have more time to examine the detailed implications of the plan, which would mandate fixed annual reductions in the deficit until it disappeared in fiscal 1991, which begins in October 1990.

Senate Republicans, however, were yesterday determined to use the debt ceiling deadline to bring the plan to an early vote. The Treasury has warned that the Government will run out of borrowing authority today and have to stop paying some of its bills if the debt ceiling is not raised.

Senator Robert Dole, the majority leader, was yesterday still resisting a Democratic proposal for a brief stop-gap debt limit extension to allow more time for debating the budget plan. He warned that he was ready for a showdown on the vote, even if it meant a few days of financial disruption for the Government.

"The Government won't come to a halt but it may slow down a bit," Mr Dole said. "My view is if the stakes are high enough, you may have to put up with it for a while."

The plan, as approved by Mr Reagan, is now sponsored by more than 40 of the 100 senators, including some Democrats. It calls for annual reductions of about \$36bn in the deficit, estimated at \$100bn in the current fiscal 1986 budget year.

The legislation would bar the President from proposing, and Congress from debating, budgets that exceed the prescribed limits. If projected subsequently showed that the limits were about to be breached, the President would automatically order across-the-board spending cuts, excluding social security, unless Congress came up with alternative measures to bridge the gap.

While accepting the goal of a balanced budget, the Democrats are deeply suspicious that the plan as it now stands will lead to further radical cuts in domestic spending and social programmes.

Senator Gary Hart of Colorado, a strong critic of the scheme, warned over the weekend that "few senators, including sponsors of the measure, really know what they're doing."

prevent the full two thirds from being voted for the SCM offer of \$74 a share. SCM's shares closed 94 down this Friday at \$72.

The tie-up over SCM has in the last few weeks become a highly technical matter, as Hanson first lost a court action over aggressive share buying tactics and later won an appeal. The main issue now, however, is whether the SCM consortium will try to negotiate a settlement with the UK company so that the proposed deal can go ahead.

Mr Robert Frie, president of Rothschild Inc, Hanson's investment banker in the U.S., said at the weekend that no talks had as yet occurred between the two sides. But some Wall Street analysts are expecting movement towards discussions this week as the buyout tender offer runs towards expiry on Friday.

Hanson itself is inhibited from doing more than adopting its pres-

ent spoiling role by a so-called "crown-jewels" clause in the agreement between SCM and Merrill Lynch.

That clause says that the investment bank will be allowed to acquire two of the New York company's most prized assets at favourable prices if any share-holder buys more than 33 per cent of the group.

On the management buyout side, however, investment bankers say that Merrill Lynch may now have a problem in concluding the tender offer, because of its heavy financing costs.

Without concluding a merger, which would give it the right to buy out minority shareholders, the management consortium would not find it easy to dispose of any of SCM's assets. Yet some disposals are likely to be required to pay part of the debt involved in the deal.

Some bankers close to the bid battle have argued that Hanson is also faced with heavy financing costs on its 34 per cent stake.

SCM buyout plan likely to fail as Hanson increases stake

BY TERRY DODSWORTH IN NEW YORK

THE BATTLE for control of SCM, the U.S. conglomerate, is moving into a critical phase this week after a flurry of share buying by Hanson. The UK industrial group, which launched a takeover bid for the New York concern in late August.

Hanson's latest share acquisitions, noted in a filing with the Securities and Exchange Commission, have jockeyed the UK company into a position to throw up a strong barrier against SCM's \$900.3m management buyout proposals.

The UK group now has 32.1 per cent of SCM, making it virtually certain that the consortium of SCM directors and Merrill Lynch, the New York securities firm which is backing the buyout, will not be able to effect a merger as planned.

Under New York state law mergers have to be approved by a two-thirds majority of shareholders, and lawyers say that Hanson's current holding will be sufficient to

prevent the full two thirds from being voted for the SCM offer of \$74 a share. SCM's shares closed 94 down this Friday at \$72.

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EUROPEAN NEWS

Alfonsin moves to isolate Thatcher

BY TOM BURNS IN MADRID

THE ATTEMPT by President Raul Alfonsin of Argentina to isolate Mrs Margaret Thatcher on the Falklands issue by winning the British public over to a negotiating process took a further step forward yesterday after he held talks in Madrid with Liberal leader Mr David Steel.

A joint communique issued after the meeting said that President Alfonsin and Mr Steel had agreed that "as an integral part of the dispute there should be a formal cessation of hostilities and the lifting of the protection zone, the re-establishment of diplomatic and commercial relations and the re-opening of negotiations on all aspects of the future of the Falkland Islands, including sovereignty."

The communique said preparations for the negotiations should be "undertaken simultaneously by the two governments without delay."

Two weeks ago Argentina's President and Mr Neil Kinnock, the Labour Party leader, issued a joint communique which also called for negotiations.

The Madrid communique avoided using two key loaded words. It made no mention of the "wishes" of the Falkland Islanders—which Mrs Thatcher says are paramount—or of the "interests" of the Islanders which, much to Whitehall's

irritation, was the term agreed in the statement with Mr Kinnock.

Instead yesterday's communique said that Mr Alfonsin and Mr Steel "stressed the importance of guaranteeing effectively for the Islanders the preservation of their way of life."

This new diplomatic formula was hammered out at a three hour meeting held by Mr Steel with Sr Jorge Sabato, Argentina's Secretary of State for international relations, prior to the talks.

Mr Steel's strong commitment to negotiations appeared to be based on his personal admiration for Sr Alfonsin and, his belief that both the consolida-

tion of democracy in Argentina and the long-term future of the Islanders could only be assured by what he termed a "retreat from the Fortress Falklands mentality."

The Liberal leader said later that the preservation of the Islanders way of life would be guaranteed effectively by an international agency supervising a bilateral agreement. Mr Steel said that he had found common ground during his "friendly and positive" discussions with Sr Alfonsin. "Democracy would not have come to Argentina without the courage and sacrifices of our forces and without the courage and sacrifice of Sr Alfonsin and his supporters," he said.

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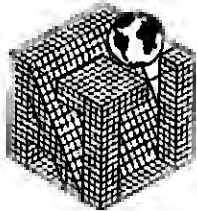
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Portuguese voters flock to polls

BY DIANA SMITH IN LISBON

PORTUGAL'S highly conscientious voters came out in droves on a brilliantly sunny Sunday in the second snap general election in a year.

Generally peaceful voting throughout the country was marred by noisy incidents in four small townships in the north who have traditionally made it difficult to carry out the election, because they protest against either borough status or city limits.

Turnout was heavy early in the day indicating that despite their disappointment with squabbling parties and constantly fragmenting coalitions, a sizeable proportion of the 8m voters stopped off on the way to or from mass, the beach or a Sunday meal with relatives—to cast their ballots.

Privately taken polls during the three week campaign suggested that at least 80 per cent of voters were undecided. There are 500,000 new voters this year, mostly 18-year-olds who were small children when the repressive right-wing dictatorship which permitted only

severely limited suffrage was overthrown in 1974.

Less interested in politics than their parents, who grew up in the shadow of a fierce political police that treated even moderate opposition to the regime as subversion, and who displayed a voracious appetite for politics after 1974, the young voters seemed less anxious than their elders to make a visit to the polling station their absolute priority on an election Sunday.

Older voters, however, with their usual combination of zeal and solemnity, do not seem to be as easily swayed by the

linked circles for the Communists' United Popular Alliance which took 18 per cent in 1983; and two inverted arrows and a circle for the Christian Democrats who took 12 per cent in 1983.

This year voters in a country where suffrage is so universal that it covers four-fifths of the population, had another symbol to study, the scales of the Democratic Renewal Party (PRD), the maverick movement clustered around the outgoing head of state General Antonio Ramalho Eanes.

Pre-election polls hinted that the Socialists and Social Democrats might run neck and neck around 30 per cent while the PRD, probably stealing votes heavily from the Socialists, could reach 10 per cent.

A close result would mean another coalition government for Portugal, and, probably, more months of indecisive administration as the country painfully makes its way into European Community membership.

Italian banker summons by magistrate

BY ALAN FRIEDMAN IN MILAN

DR Enrico Cuccia, the 77-year-old ex-chairman and eminece of Mediobanca, the Milan merchant bank, has been summoned to appear before a Rome magistrate to discuss allegations that he may have been involved in the misappropriation of funds from Italy's IRI state holding group.

The IRI "black funds" scandal is a long running investigation in which several former IRI officials have been implicated. Dr Cuccia, who is perhaps Italy's most influential banker, received a judicial warning some months ago informing him that he was under investigation in connection with

the case. Mediobanca, which is 57 per cent controlled by three IRI banks, is one of Italy's few genuine merchant banks. Dr Cuccia, who has close ties to the Italian financial establishment, has been involved in virtually every important corporate takeover since the war.

Dutch set to go ahead with cruise

By Laura Rawn in Amsterdam

THE NETHERLANDS probably will go ahead and approve the deployment of U.S. cruise missiles on November 1 despite Soviet leader Mikhail Gorbachev's carefully timed announcement that the number of Soviet SS20 missiles had been cut.

Mr Ruud Lubbers, the Dutch Prime Minister, said over the weekend that "several tens" too many of the Soviet nuclear missiles remained in place for the Dutch to refuse the cruise and Pershing missiles under the

Cabinet's June 1, 1984 decision. He described the chances as "small" that the total number of SS20's in both European and Asian Soviet Union would be reduced to the 378 necessary to halt Dutch deployment.

Mr Lubbers and parliamentary leaders hastened to add, however, that Mr Gorbachev's arms-control proposals announced last Thursday in Paris offered fresh hope that fewer

Nato missiles ultimately would be stationed on Dutch soil.

The Cabinet's decision last year said that if the U.S. and the Soviet Union reached an arms limitation agreement, then the Netherlands would accept a proportionately smaller number of the medium-range missiles.

Mr Joop de Boer, defence specialist for the Christian Democrats, the senior partners in the ruling coalition, described Mr Gorbachev's speech as a "constructive effort

ALAIN PROST'S SUCCESS IS CRYSTAL CLEAR.

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EUROPEAN NEWS

West Germany denies approving Saudi arms deal

BY RUPERT CORNWELL IN BONN

SPECULATION over a possible massive West German arms contract with Saudi Arabia has intensified here — at the embarrassing moment of the eve of an official visit to Israel by Herr Richard von Weizsäcker, the Federal President.

Government officials indicated last night that negotiations were in progress but denied reports in *Der Spiegel* that full government approval had already been obtained for the transaction, worth a reported DM 9bn (£2.4bn) in all.

According to the latest issue of the magazine, the centerpiece of the deal would be the supply of a weapons factory to Saudi Arabia by a West German group, led by Thyssen-Rhein Stahl Technik of Düsseldorf, a subsidiary of the Thyssen steel group. The plant, which would take around 10 years to complete, would produce primarily tank and howitzer shells.

The report, moreover, suggests that Saudi Arabia has dropped its longstanding desire to buy the highly sophisticated Leopard II battle tank, produced by the Krauss-Maffei concern. For years Israel has employed every effort to prevent Bonn from allowing such a deal, which it says could upset the precarious military balance in the Middle East.

Israel reviews links with Egypt after Sinai murders

BY WALTER ELLIS IN TEL AVIV

ISRAELI IS reviewing its relations with Egypt following Saturday's murder on the coast of Sinai of seven Israeli tourists, including four children.

Egypt says the deaths were caused by a single, deranged policeman, but senior Israeli officials said yesterday that a soldier, or soldiers, could have been responsible. If they are proved right, Egypt will have violated the 1978 Camp David accords, which stipulate that only policemen with handguns are permitted to patrol the Sinai Coast, near Elat.

A formal investigation has been launched by the Egyptians, but Israel has demanded a full report on all aspects of what took place, to be submitted to Jerusalem within 48 hours. "Israel is angry that some victims were left lying for up to five hours before receiving medical attention."

Doctors in Israel say that several died from loss of blood and could have been saved if medical aid had been provided sooner.

The Egyptians did not appear to know what to do, according to Israeli witnesses. One officer was apparently shot dead when he tried to intervene, and others were concerned to keep onlookers away, even though children were lying wounded in the sand.

President Hosni Mubarak's message of condolence yesterday was received coldly by Mr Shimon Peres, the Israeli Prime Minister. Israel remains anxious to continue the peace process, with Egypt but is irritated by Cairo's response.

Tunisians welcome UN condemnation of raid

BY FRANCIS GHILES IN TUNIS

THE CONDEMNATION of last Tuesday's Israeli raid against the headquarters of the PLO in Tunis by the UN Security Council has given Tunisian leaders considerable satisfaction.

"Another victory for Bourguiba" ran the banner headline of the ruling Destour Socialist Party daily, *l'Action*, which quoted the president's personal satisfaction that the U.S. had changed their initial stance which justified the Israeli action.

The vindication of President Bourguiba's position has gone some way towards repairing the initial damage done by the U.S. reaction, at least among the leadership and many members of the middle class.

However, the older generation of Tunisians attaches far greater significance to the vote than younger people who are more cynical about U.S. attitudes to the Arabs.

The Prime Minister Mr Mohamed M'Zali declared that he was all the more happy at the outcome of the vote and the unanimous support for Tunisia coming from Western countries as Israel "pretends to represent Western values."

Soma of the Palestinians killed during last week's raid were buried privately yesterday in Tunis. Mr Yasser Arafat, the chairman of the PLO, said: "President Reagan was probably expecting to send a bouquet of red roses for me today."

President Reagan's message of condolence yesterday was received coldly by Mr Shimon Peres, the Israeli Prime Minister. Israel remains anxious to continue the peace process, with Egypt but is irritated by Cairo's response.

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Arms plan a starting point, says McFarlane

By Regional Desk in Washington

MR ROBERT MCFARLANE, President Ronald Reagan's National Security Adviser, yesterday said that the Soviet Union's latest arms controls proposals were a "starting point" for negotiations — although he doubted whether even Moscow would regard them as an equitable basis for an arms agreement.

Two motives were behind the proposals, publicly outlined by Mr Mikhail Gorbachev, the Soviet leader, in Paris last week, Mr McFarlane said. These were to end Mr Reagan's Star Wars space defence programme, while leaving the equivalent Soviet programme intact, and to drive a wedge between Washington and its West European allies.

By insisting on a unilateral 50 per cent cut in U.S. medium range weapons in Western Europe, as well as in U.S. strategic forces, Moscow was trying to force the U.S. "to choose whether we defend our allies or ourselves," Mr McFarlane said on NBC television. He conceded, however, that the proposal contained "elements of a very constructive beginning."

On the Middle East, Mr McFarlane expressed optimism that the peace initiative conducted by King Hussein of Jordan had not been too badly disrupted by last week's Israeli raid on the Palestine Liberation Organisation's headquarters in Tunis.

He was confident that a new "milestone" in the efforts to bring Israel and the Arabs to the negotiating table would be put in the next month, but would not give any details.

Mr McFarlane confirmed reports that Mr Michael Dwyer, the former White House deputy chief of staff and a close personal friend of Mrs Nancy Reagan, had been brought back to give advice on preparations for Mr Reagan's summit meeting with Mr Gorbachev in Geneva on November 19 and 20.

Since the end of July the Government has been operating under a tough austerity package that has included a wage and price freeze. The inflation rate which was running at over 10 per cent a month when the 36-year-old president took office in July has been cut to 3.5 per cent.

The Government at first considered stimulating demand by increasing rural incomes but this was considered too slow a means of boosting the economy. By raising wages and salaries, cutting interest rates and introducing selective price increases the Government hopes it can quickly start using idle industrial capacity yet also hold down inflation.

Sr Garcia said wages would rise by 4 per cent with the suppression of a special tax paid jointly by employers and employees. Public sector workers would also have access to a Soles 1m (£51m) interest-free loan in their October-November wages, repayable over 15 months.

Interest rates will be cut from approximately 75 per cent to 45 per cent.

Until now the main burden of the prices-wage freeze has fallen on borrowers. Banks, financial institutions, insurance companies and larger industrial concerns (like mining companies) will be obliged to buy certificates of deposit equivalent to 40 per cent of their 1984 profits to mop up liquidity and further channel investment.

Import restrictions will essentially cover luxury items like domestic electrical goods, drinks, cigarettes and clothing. To maximise export earnings the existing official Soles-dollar rate of Soles 14,000 will be kept until year-end while the parallel rate will remain high to discourage dollar purchases.

Sr Garcia only committed himself to maintaining the freeze on utility prices and petroleum, thus implicitly conceding that there would be other price rises allowed.

EXHAUSTED rescue workers abandoned their attempts to save a schoolboy trapped in the ruins of his family's home since Mexico's earthquake 17 days ago, and bulldozers rumbled on to the site to clear the debris, Reuters reports from Mexico City.

Miners, foreign experts and paramedics had worked desperately for four days in the wreckage of the house where nine-year-old Luis Ramon Nafarrate, nicknamed Monchito, was believed to have survived for more than two weeks.

Hopes that he could be pulled out alive evaporated last night when the engineer in charge of the operation, Sr Julian Aved, said it was "completely improbable" that anyone remained alive under the mountains of rubble.

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Singapore battles to beat recession

BY ALAIN CASS IN SINGAPORE

SINGAPORE is looking for ways in which to loosen government controls over its economy in a bid to propel itself out of the present recession.

Among the options being considered, according to Mr Goh Chok Tong, the first Deputy Prime Minister, are a lowering of the corporate rate of taxation, privatisation of key industries, a more flexible wage bargaining system and a more extensive use of the state savings fund.

Singapore is in the throes of the worst recession in its history. Since 1973 Singapore's annual growth rate has only dipped below 7 per cent three times. This year it is expected to record very little or possibly no growth at all.

Mr Goh, widely regarded as

Prime Minister Lee Kuan Yew's political heir, said in an interview that he expected the present recession to last for "one or two years."

"But we hope," he added "to start climbing upwards after that especially if we can attack the cost structure which makes us less competitive."

Singapore's deliberate policy of high wages, aimed at attracting higher technology, has been a major factor in pricing it out of world markets.

Mr Goh also admitted that some major investments by the Government in past years had, with hindsight, proved to be a mistake. These included petrochemicals and shipping.

"If the shipyards can't get together and find a solution to their problems then they may have to close down. So be it," he said.

According to Mr Goh among the measures being actively considered by the Government to make the economy more efficient and increase productivity are:

● Privatisation: "The decision has been taken to divest ourselves of a large chunk of shares in companies, such as Singapore Airlines, which are directly relevant to government."

● Bureaucracy: "We want to modify and eliminate some rules and regulations which stifle the entrepreneur."

● Taxes: The Government is considering a reduction in the present 40 per cent corporate tax rate to attract more investment from abroad.

The first deputy Prime Minister also confirmed that the Government was considering allowing investors in the state Central Provident Fund (CPF) savings scheme to invest directly out of the fund into shares or possibly gold.

● Prices: "Maybe we should move out of this area too. For example taxi fares. These are now decided by the Ministry of Communications. Now we feel the taxi drivers and operators should decide this themselves. There are other areas."

● Wages: Singapore presently has a central wage system which sets the level of increase for the whole economy. "We think the system should be much more flexible taking into account the profitability of individual companies."

Garcia acts to boost economy

BY ROBERT GRAHAM IN LIMA

PRESIDENT Alan Garcia has announced an extensive package of measures designed to stimulate Peru's depressed economy.

The measures include a cut in interest rates, a modest rise in real wages through suppression of taxes, a freezing of the official exchange rate against the dollar until the end of the year, an import ban on some 200 items and a selective relaxation of price controls.

In a sombre statement read out at a Press conference late on Saturday, Sr Garcia said the measures represented the second phase in his Government's programme of economic recovery. After 60 days in office, Sr Garcia claimed success in restoring confidence and bringing down inflation.

Since the end of July the Government has been operating under a tough austerity package that has included a wage and price freeze. The inflation rate which was running at

over 10 per cent a month when the 36-year-old president took office in July has been cut to 3.5 per cent.

The Government at first considered stimulating demand by increasing rural incomes but this was considered too slow a means of boosting the economy. By raising wages and salaries, cutting interest rates and introducing selective price increases the Government hopes it can quickly start using idle industrial capacity yet also hold down inflation.

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FINANCIAL DIRECTOR INVOLVED IN PROFIT-MAKING PLOT

Details have emerged of a prominent financial director's involvement in a successful profit making plot in the heart of the English countryside.

ALL SO EASY

In a statement the unnamed man confessed that he'd chosen the area because it allowed him the freedom to plan for his success.

Bureaucracy and red tape, he said, had been cut to the minimum and he was able to buy a greenfield site, with plenty of room for expansion, at a very attractive price.

COLLABORATION

He had no difficulty in obtaining assistance from the local authorities who, he claims, had helped him in every way possible. He received similar co-operation from the local workforce whose operations had impressed him greatly and he was soon able to tap into the area's supply and service network.

All of which he believes will contribute to the profitability of his enterprise.

MOVING EXPERIENCE

When asked what his existing staff had thought about moving to the area, he replied, "They were only too pleased. Not only are there all the amenities of 'back home' but there's cheap housing and beautiful countryside too."



NO FUSS

His final comment was to recommend the area to any businessman wanting to expand his business with the minimum of fuss and the maximum of success.

If you'd like to benefit from his advice and discover Northamptonshire, the best kept secret in England, just fill in the coupon and we'll send you all the details.

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WORLD TRADE NEWS

U.S. wants tighter CoCom control

BY DAVID MARSH IN PARIS

THE U.S. this week is to press its allies for greater vigilance in technology trade with the East bloc at a high level meeting in Paris of the Co-ordinating Committee (CoCom) which vets Western sales to Communist countries.

Mr Richard Perle, the U.S. assistant defence secretary for international security policy, is coming to Paris for the meeting tomorrow. Mr Perle, a keen supporter of strengthened powers for CoCom to deter flows of militarily-useable technology to the East, is expected to underline the need for more effective counter-measures

against Soviet attempts to gather arms secrets.

This follows publication last month of a detailed Pentagon report warning against Soviet attempts to collect Western military intelligence.

Senior officials from the main Western nations at the meeting on Tuesday will also be considering the question of liberalising controls over high technology trade to China in line with warmer relations between Peking and the West.

CoCom groups 15 Western countries, including all the North Atlantic Treaty Organisation members apart from

Iceland, plus Japan.

CoCom experts have already started work on preparing less restrictive rules covering technology which can be exported to China.

The first batch of product lists allowing export to Peking of electronic material and other equipment — including arms — which would be handed to other Communist countries is expected to be drawn up next year.

In anticipation of the new rules, the U.S. has recently indicated it will approve export by France to China of a highly developed business communica-

tions system manufactured by the software group Sesa.

Sale of the system was held up during the summer. This technology could be used both in weapons and also to make China's army communications impossible to "tap" by radiation-detecting spy satellites.

Relaxation of the U.S. attitude over the Sesa order, along with the anticipated setting up of less-restrictive China product lists, is expected by Western diplomats to spur fresh Chinese efforts to buy sophisticated arms from the West.

China plans to expand national airline

CHINA'S national airline CAAC plans to buy 30 wide-bodied jets over the next three years in addition to more than 40 new aircraft purchased this year, the New China News Agency said, Reuters reports from Peking.

Guo Hao, CAAC's deputy director-general, said the planes would enable the airline to scrap old models and meet an expected 20 per cent annual rise in business over the next five years.

"China's civil aviation industry has entered a new stage of development, in meeting the demands of the country's policy of opening to the outside world," he said.

Guo also announced plans to expand routes to at least eight new countries. The airline flies to 25 cities in 21 countries, with 17 foreign airlines flying to China.

He said CAAC would start flying to, among others, Argentina, Brazil, Canada, East Germany, Italy, Mongolia, Nepal, Turkey over the next three years.

He said it would also increase flights to Europe, Japan, the U.S. and Hong Kong.

● Dow Financial Services, a London-based group in which Dow Chemical of the U.S. has a controlling stake, is lead manager in a \$13.5m (£9.6m) loan to finance an industrial project in China.

The credit is being granted by a Hong Kong consortium to finance a beer-can plant at the Zhao zhang brewery in Guangdong. As a joint venture between the brewery and the Hong Kong-based Sun Shin Kong enterprises, this will produce 194m cans for 'Ding Ho' beer annually.

● Dow Financial Services, which is participating in the project through a Hong Kong subsidiary, says this is its first major venture in China.

Senior executives at Boeing's headquarters in Seattle, U.S., are considering launching a fresh initiative to try to stop the European Airbus Industrie consortium winning an order from Indian Airlines worth up to \$1.6bn (£1.14bn).

Alibon received a letter of intent from the airline 11 days ago which meant that a similar letter of intent issued to Boeing for a \$560m order last year would be cancelled.

Brazil asks U.S. group to raise \$95m for steel works

BY ANDREW WHITLEY IN RIO DE JANEIRO

MANUFACTURERS Hanover leasing, a wholly-owned subsidiary of Manufacturers Hanover Trust, has been awarded a mandate by the Brazilian Government to raise \$95m (£67.9m) for the controversial Acominas steel works through a sale-and-lease-back operation involving equipment already installed at the partially operating plant.

In a further move, aimed at completing the first stage of Acominas whose total costs to date have risen to \$60m, compared with an original estimate of \$2.7bn — the state-owned Banco do Brasil is to provide the crushing equivalent of US\$100m in pre-export financing.

The Banco do Brasil funds are linked to contracts to be signed with the Swedish trading company, Boliden Intertrade Aktiebolag, for the sale of up to 1.2m tonnes of blooms and billets. Final customers are reported to be a number of Far East steel mills based in Japan, Hong Kong and, possibly, Singapore.

Acominas, a greenfield integrated steel works in Minas Gerais, with an initial annual capacity of 2m tonnes, brought its first battery of coke-ovens and its blooming and billet mills on stream last February, utilising ingots provided by other

companies in the state-controlled Siderbrás group.

The Davy Corporation, through its Davy McKee subsidiary, is the lead foreign contractor, while CGEE Alsthom of France and GEC and Woodall-Duckham of the UK are also involved.

Subject to repeated budget cut-backs and a lowly place in government project priority lists, Acominas has, in recent years, been a source of considerable embarrassment to both the Brazilian authorities and Davy.

Already five years behind its original schedule, the giant steel works has suffered a further six months' delay this year under the new Sarney Government because of difficulties in completing the two financing operations now being arranged.

However, provided the sale and lease-back deal is completed rapidly, work on the blast furnace, steelmaking plant and its second battery of coke-ovens could be finished off by the next six months, finally bringing the project fully on stream.

A second stage, embracing the erection of plant and import of equipment for the production of heavy sections and rails, is budgeted at \$288m. But this is thought likely to be postponed until 1987 at the earliest.

Zurich beer for Egypt

BY TONY WALKER IN CAIRO

EGYPT'S state-owned Al Ahram Brewery has signed a licensing agreement with Brauerei Hurlmann of Zurich to produce what is described as a malt non-alcoholic drink.

The Swiss company is providing the formula and technical advice for the enterprise which is expected to produce about 4m crates of the non-alcoholic beer and other carbonated drinks a year.

Investment by the Egyptians in a new plant to produce the malt beverage is equivalent to \$30m (£21m).

Brauerei Hurlmann will be paid a licensing fee and royalties on sales of the drink.

World Economic Indicators

	August 85	July 85	June 85	August 84	year
U.S.	131.0	130.8	130.6	128.8	+3.3
U.K.	142.9	142.5	142.7	134.5	+8.2
W. Germany	128.7	128.1	128.3	124.2	+4.2
France	129.1	128.9	129.1	126.1	+3.6
Italy	191.2	190.8	190.4	175.3	+9.1
Netherlands	122.2	122.2	122.4	119.4	+2.3
Belgium	141.3	141.3	140.5	135.0	+7.7
Japan	114.0	114.7	114.4	111.0	+2.7

Source: Eurostat

SHIPPING REPORT

Dry cargo market hit by rates rise

By Andrew Fisher, Shipping Correspondent

THE DRY cargo market was more subdued last week after the sharp rise in rates seen in late September but the tone was still a good deal more buoyant than in previous weeks.

The setback in rates was "not of much substance" according to Denholm Costes, the London shipbroker. Rates for grain cargoes from the U.S. Gulf to Europe eased slightly to just over \$8 (£5.7) a ton and from the Gulf to Japan to \$13.50.

Grain trade has been boosted by the improved demand from Japan, as well as increased enquiry from the Soviet Union, though it is hard to know how much of the latter translates into business. The coal and iron sectors have also been buoyant.

The improved market should continue throughout October, said Simpson Spence and Young Shipbrokers. Around 20 Panamax ships (60,000-80,000 deadweight tons and able to go through the Panama Canal) are reported to be needed for the U.S. Gulf to Japan trade in the second half of the month.

Simpson Spence and Young warned: "The current firmer market looks like being short-lived, as overall demand is not expanding and the supply of ships is still increasing." The shipping industry had a poor summer and rates are still lower than 1984 "and have not even reached the point from which they declined so steeply this year."

On the tanker market, business for VLCCs (very large crude carriers) in the Gulf remained slow. Calbraith's reported only three orders quoted openly in the market, though Japanese charterers fared well for forward positions.

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Chris Sherwell previews the forthcoming economic summit in Bangkok

Asean hunts for closer EEC ties

AN AWKWARD moment could be looming for the European Economic Community in its generally friendly relations with the six partners of the Association of South-East Asian Nations (Asean). Economic ministers from the Ten will be meeting their counterparts collectively for the first time in Bangkok on October 17 and 18 — and it is not obvious what they can, or should, do.

The idea for the gathering came from Asean — Thailand, Indonesia, Malaysia, Singapore, the Philippines and Brunei — when foreign ministers from the two sides held their last regular meeting in Dublin in November last year. The Western Europeans, regarding such external relations as the foreign ministers' preserve, accepted only reluctantly.

Asean wants stronger Western European involvement in the region. It wants all Western industrialised countries to help in the rather nebulous areas of "technology transfer" and "human resources development" but it would also like to see a higher European profile to help counter the more powerful presence of Japan and the U.S. as a kind of "third force."

Quite how this should be done is unclear, not least to the Europeans. One suggestion from Asean is a physical presence in South-East Asia for the European Investment Bank, an idea almost killed when it was mooted last year on the grounds that the institution is specifically a West European regional development bank.

A study is supposed to have been under way since then. As there is a precedent for EIB involvement outside Europe, in

the form of a Brazilian project it is helping to fund, some sort of symbolic move is possible.

Without such a move, or preferably a more ingenious one, there is a risk of the Bangkok meeting being a failure. The Asean countries might reiterate familiar complaints about EEC protectionism, and the Community would be unlikely to respond in kind, even though Asean has benefited from the EEC's Generalised System of Preferences and despite European frustrations at Asean's foreign investment procedures, local ownership rules and trade barriers to the outside world.

In fact relations between two of the world's most successful modern economic groupings are generally good.

On the political level Western Europe is happy to follow the Asean line on the key issue of Kampuchea, while EEC development assistance operates adequately if far behind Japan in quantity.

In trade, EEC figures show a healthy increase in value from Ecu 3.4bn in 1973 to Ecu 19.4bn (£11.4bn) last year, with a rising proportion of manufactured goods among Asean's exports to the EEC. As for European investment, this is higher than both Japanese and U.S. investment in Singapore and Malaysia.

All this seems not to be quite enough, however. European investment lags behind Japan in Thailand and Indonesia, probably the two major economic powers in Asean, and behind U.S. investment in the Philippines. In trade the Community's share of Asean business has actually fallen.

The effect is to reinforce an intangible sense on the part of Asean that Western Europe is

insufficiently interested in it — that the EEC is somehow not "sincere" about South East Asia. Matters were hardly improved in July, when Europe's presentations at the annual "dialogue" session between the Six foreign ministers and Asean's foreign partners were littered with customarily vague "Eurostat" statistics.

Whereas the U.S. was represented by Mr George Shultz, the U.S. Secretary of State, and Canada and Australia sent their foreign ministers, the EEC was represented by M Claude Cheysson for the Commission and Prince Henri of Luxembourg for the Council of Ministers in a visibly less effective double act.

At the forthcoming Bangkok talks, Britain is likely to be represented by Mr Paul Channon, junior trade minister, rather than Mr Nigel Lawson, the Chancellor, and other Community members are also unlikely to send their biggest names.

Yet for all the talk of Europe's allegedly low profile in South East Asia, it remains a fact that European companies fall over themselves scrambling for business in the region, not only stabbing their West European competitors in the back but occasionally their own countrymen as well.

In this respect, at least, Western Europe comes across in the region as crazily competitive by comparison with Japan, whose trading houses and government manage to make Japanese corporate and national interests fit together so well that many of their super-low bids for international contracts are quite unmatched.

Asean countries, for their part, can secure such low prices because they know they are currently in a buyer's market which is doubly attractive to contractors as they can also pay their bills.

To Asean, however, that is merely compensation for being virtually powerless to influence the prices of vital commodities they produce — oil, natural gas, palm oil, rubber, tin, timber, pepper, rice, tapioca, coconuts, coffee, coconuts, sugar and tropical fruit.

Nevertheless there is growing concern in Asean that, in the face of protectionism in the U.S. and Western Europe, Japanese investment may be starting to shift away.

Suggestions are surfacing that Asean's competitive economies should look more to each other, developing internal trade ties and specialising their manufacturing sectors with a view to greater complementarity.

How Western Europe can help in these more complex matters is even less clear. Its experience of regional co-operation is far greater than Asean's, but Asean has barely moved down the road to integration, out of choice.

Its much-vaunted Government industrial projects and industrial complementation programmes have made disappointingly little headway.

If the EEC does find it difficult to help Asean, perhaps the most realistic view about the Bangkok meeting will be the longer-term one offered by a Western banker: that the mere fact of the two sides talking on a wider basis is the most important consideration, however aimless the discussions

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UK NEWS

Oil groups express fears over British Gas sell-off

By Dominic Lawson

BRITAIN'S oil exploration companies have been holding talks with Mr Peter Walker, the Energy Secretary, over fears that the British Gas Corporation, when it is privatised, will shake up the UK independent oil sector.

At the same time it is believed that the corporation is increasingly worried that the main oil companies, such as Shell and BP, will use their money to buy large stakes in the corporation once its shares become available in a public offering in a year's time.

Sir Denis Rooke, chairman of British Gas, has said that the corporation will expand into the oil exploration business once it joins the private sector.

In a recent letter to Mr Alick Buchanan-Smith, the Energy Minister, Mr Roland Shaw, the Secretary of Brindex, the trade association of the UK's North Sea oil exploration companies, said: "We are concerned that British Gas may become a predator which could use its immense cash reserves and cash flow to swallow up a number of the

independent companies such as members of Brindex."

At a meeting with the chairman of four UK oil companies last week, Mr Walker and Mr Buchanan-Smith made it clear that they held the £1.5bn, UK independent oil sector in high regard, but made no specific pledge to safeguard them against future predatory moves by British Gas.

The Government and the oil industry have also had meetings with Professor Bryan Carsberg, director general of the Office of Telecommunications, about the possible methods of regulating a privatised national gas utility. Professor Carsberg said that any moves by British Gas to acquire oil companies "is very clearly an area that would require the joint attention of the Office of Fair Trading and a future gas regulatory body."

However it appears likely, that British Gas's chief concern is to avoid being taken over or controlled by the oil majors. Companies such as Esso, Shell and BP have taken large stakes in a number of European gas utilities such as Gazunie

of the Netherlands and Ruhrgas of West Germany. These investments have proved lucrative to the oil companies.

Shortly before the Government announced it would privatise the British Gas Corporation as a whole, Sir Peter Walker, chairman of BP, said that he was interested in acquiring certain parts of British Gas.

The Government is now considering ways of protecting British Gas, such as the use of a rule preventing a single company holding more than 10 per cent of its equity.

Such a device has been used in earlier privatisations like Jaguar. But the corporation is likely to point out that a number of large oil companies each taking no more than 10 per cent of British Gas's equity, could achieve control of the UK's sole gas supplier.

A strong gas regulatory authority to oversee the corporation in the private sector will not diminish the attractions of British Gas to the City of London, the Association for the Conservation of Energy said yesterday.

Electricity authority lifts coal stockpiles

By John Lloyd, Industrial Editor

THE CENTRAL Electricity Generating Board has rebuilt its coal stocks to near the levels held before the year-long miners strike after large purchases from the National Coal Board's stockpiles. But in other markets, where the NCB's hopes for the future lie, sales are sluggish. Stocks at the power stations now stand at over 20m tonnes, compared with 28m tonnes at the start of the strike.

Confidential figures presented to last Friday's Coal Board show that over the past six months, the CEBG stocks have grown from just over 11m tonnes at the end of the strike in March 1985, to just over 20m tonnes.

This reflects an increase of 8.6m tonnes, growing at a rate of nearly half a million tonnes a week. About 200,000 tonnes of the 1.78m tonnes presently bought each week by the CEBG is from other than NCB sources - presumably from greatly increased imports.

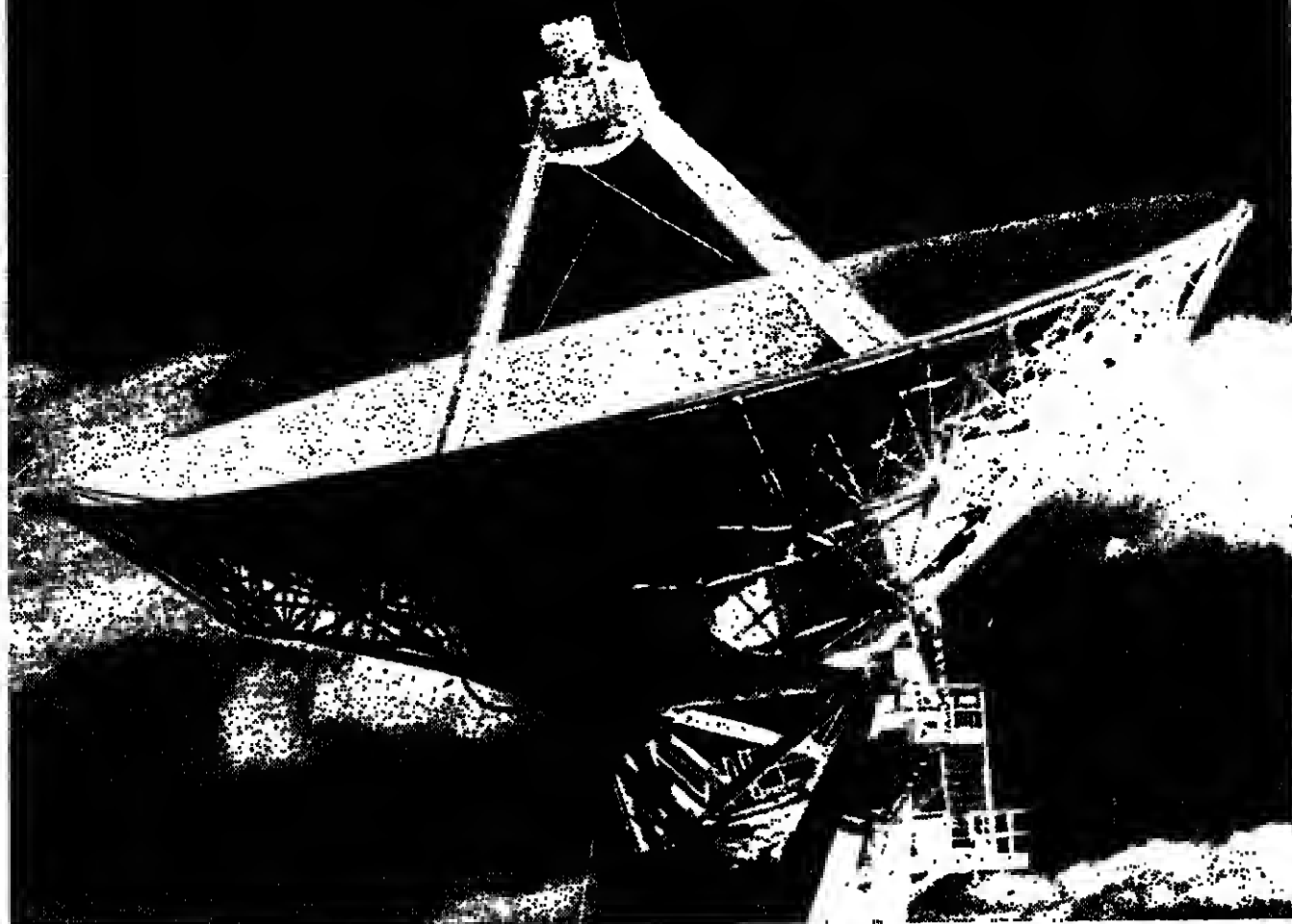
From a stock level of 19.2m tonnes at the end of the strike, the board has run its stocks down by 9m tonnes to 10.2m tonnes in the past six months to September 21. Over the entire financial year, the board projects a further - although less rapid - stock rundown, by 4m tonnes to 6.2m tonnes.

This contrasts with the 25m-30m tonnes which the board had built up by the beginning of the strike in March 1984. The low level of stock likely to be achieved by next April will save the board many millions of pounds in stocking charges.

The figures show that the board has been able to recover production from its deep mines more rapidly than it thought, with output now considerably exceeding target. Over the past six months the UK's deep mines have produced 40m tonnes against a projection of 38.3m tonnes. The disposals to the CEBG were budgeted to be 38m tonnes, but the board was able to dispose of 39.5m tonnes.

The board now projects a deep-mined output over the whole financial year 1985/86 to be 68.7m tonnes - just short of the 90m tonnes at which it hopes to stabilise production. Its total projected output, including 14.8m tonnes from open cast mines and 1.7m tonnes from licensed mines, is 105.2m tonnes.

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Nearly three million readers reach for *The New York Times* every day to find out what's going on in the world. That makes it one of America's largest selling newspapers.

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The Times has a state-of-the-art printing set up which has been fundamental to its growth and success. The national edition is put together each day in New York City. Then, thanks to a high speed laser scanner designed in Virginia by Crosfield Data Systems Inc. (formerly known as LogEscan Systems Inc.), each page is transmitted to a satellite 22,300 miles above the earth and the information is then beamed to printing plants in five states across the nation.

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If this sounds good to you, contact Denis Ruffin, Director for Europe, Virginia Department of Economic Development, 479 Avenue Louise, BTE 55, B-1050, Brussels, Belgium. Telephone: 648-6179. Telex: 26695.

Virginia

We're Doing Some Of America's Most Exciting Work.

Carlton Communications bids £80m for Thames Television

By Raymond Snoddy

CARLTON Communications, the fast-growing video technology and television production company, has made an £80m bid for Thames Television, the largest British independent television contractor.

If the takeover goes ahead it will create the most sophisticated, integrated group in commercial television, covering everything from the manufacture of digital video equipment to making and transmitting television programmes.

The new group, probably to be called Carlton Thames, would have a market capitalisation of about £200m.

Preliminary agreements have already been signed between Carlton and the two main Thames shareholders - Thorn EMI and British Electric Traction (BET).

The two companies, which hold all but 5 per cent of Thames' shares, said yesterday in a statement that the terms of the "unsolicited offer"

were such that they merited consideration.

Approval by the Independent Broadcasting Authority (IBA) - which regulates commercial radio and television - is necessary for a change of ownership at Thames, but it is believed that extensive discussions have already taken place between Carlton and IBA officials.

Lord Thomson, chairman of the IBA, returns from holiday today and urgent meetings are likely to be held this week in preparation for reviewing the issue at the next authority meeting on Wednesday week.

A condition of the Thames Television franchise is that it should broaden its share base, and in particular give the public a chance to invest directly.

Carlton, which has a full Stock Exchange listing, plans to finance the deal by offering £80m worth of new shares in Carlton Thames im-

mediately, if IBA approval is given. About 60 per cent of the value in the new shares would be accounted for by the Thames stake because of the relative size of the two companies.

In the first half of its 1984-85 year Carlton more than doubled pre-tax profits from £2.37m to £4.6m on a turnover of £18.4m and brokers expect profits for the year to top £11m on a turnover of £40m. Thames had pre-tax profits of £8.7m on a turnover of £167.9m in the year ending March 31.

It is believed that Carlton has complete confidence in the present Thames management under Mr Richard Dunn, the recently appointed managing director, and sees Thames' role as complementary to its own.

Lord Brabourne, the independent producer who is on the Thames board, might be asked to be chairman in the event of a takeover by Carlton.

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UK NEWS

Clearing banks trim networks

By Our Financial Staff

THE BIG UK clearing banks are continuing to trim their branch networks while the building societies strengthen theirs, although at a slower rate.

The nine London and Scottish clearing banks had 12,507 branches at the end of 1984, according to the annual survey by Noel Alexander Associates, the consultancy firm. This was down from 12,847 in 1983 and well below the peak of 13,201 in 1976. The building societies, by contrast, increased theirs to 6,845 from 6,672 in 1983.

All the big four clearing banks reduced their branch numbers. The biggest cut was at Midland Bank which closed 60 and opened nine for a net reduction of 51. The net closures at the others were Barclays 46, NatWest 16 and Lloyds 10.

NatWest still has the largest branch network with 3,217. Citibank, the U.S. bank, which has just become the first foreign clearer, opened five branches to bring its total to 11.

EUROPEAN COMMUNITY UNDER ATTACK ON PRODUCTION LEVEL

Warning on EEC sugar quotas

BY ANDREW GOWERS

BRITISH SUGAR, the UK beet sugar monopoly and subsidiary of commodity trading group S. & W. Berisford, said at the weekend that it will be "condemned to stagnation" if it does not obtain a larger production quota from the EEC next year.

Mr Gordon Percival, the company's managing director, also said that Britain could lose thousands of new jobs in biotechnology industries to continental Europe unless it is allowed to produce more sugar.

His warnings follow weeks spent lobbying several UK Government departments on the issue, and apparently mark an attempt by the company to step up pressure on the Government.

The European Community's five-year sugar regime, which sets limits on the amount of production qualifying for subsidy and imposes levies on producers to pay for the disposal and storage of surpluses, expires next year. Farm ministers are supposed to agree on a replacement by the end of 1985.

The European Commission has proposed leaving production quotas unchanged and raising producer levies by 25 per cent.

This would leave British Sugar with a quota of 1.14m tonnes, representing just under 50 per cent of domestic consumption, and a sharp increase in its levy bill, currently around £20m a year, or just under half of its pre-tax profits.

Several Community countries, led by France, are pressing for increased quotas. British Sugar is incensed, both at the Commission's original proposal - which it says discriminates in an unprecedented fashion against the UK - and at the British Government's refusal so far to oppose it by also demanding a larger quota.

Britain is the only EEC country whose sugar quotas fail to meet domestic consumption, largely because of the quantity it imports from Third World countries for processing by Tate & Lyle, the country's only other sugar company.

British Sugar argues that a 30 per cent increase in its production quota is necessary in order to satisfy an expected rise in demand for sugar from the food industry and consumption in coming years by new users among chemical manufactur-

ers, making pharmaceuticals, paints and cosmetics among other products.

It estimates that UK consumption, currently about 2.3m tonnes a year, could increase by 350,000 tonnes as a result of these two factors. And it insists that its proposal would not harm the Third World cane sugar producers of Tate & Lyle.

"We now have a situation where a new biotech industry will come into being in Europe and will use sugar as its feedstock," says a briefing paper circulated by the company to the Ministry of Agriculture, the Department of Trade and Industry, and the Department of Energy.

"As the Commission's proposals stand the investment will be made in other member states and not in the UK. We believe this to be politically and commercially unacceptable."

British Sugar's demand for a larger quota comes against a background of heavy investment in efficiency improvements to its beet refineries in recent years, and a rise

in sugar production owing to advances in agricultural technology.

Without the increased quota, the company suggests that it can see no prospect for growth: "With the extensive modernisation of the UK sugar industry now in place the Government will be condemning the UK industry to stagnation to the benefit of other countries. This applies both to the healthy continuance of existing traditional products and the development of new uses for sugar."

Mr Percival said his arguments appeared to have made headway with the Department of Trade and Industry but were still meeting some resistance from the Ministry of Agriculture, which is campaigning to reduce EEC food surpluses.

With the EEC producing more than 3m tonnes of sugar surplus to domestic requirements and several countries campaigning to be allowed to produce more, many observers believe that it would in any case be exceptionally difficult for Britain to obtain special concessions.

September commercial vehicle sales rise

By John Griffiths

UK SALES of new commercial vehicles rose sharply in September, by 27.44 per cent compared with the same month a year ago. Statistics from the Society of Motor Manufacturers and Traders show that 25,405 vehicles were sold during the month against 19,935 last year.

This has produced a further acceleration in the recovery from the commercial vehicle industry's worst post-war recession, with sales for the first three quarters, at 223,865, now 6.35 per cent ahead of the equivalent 1984 period when 210,502 were sold.

The market share taken by importers fell in September, from 57.4 to 55.2 per cent. However, the underlying trend is still upwards, with the importers taking 56.7 per cent in the first nine months compared with 55.8 in the comparable year-ago period.

Last month's improvement was across all the commercial vehicle sectors.

Sales of light vans rose to 7,756 (6,141) bringing the year to date total to 72,895 (66,896), medium vans to 11,783 (8,422) for a nine-month total of 95,868 (90,824) and heavy trucks, those over 3.5 tons, to 4,535 (4,067) for a nine-month total of 42,776 (40,402). Ford is predicting a heavy truck market of 53,000 this year.

Sales of four-wheel-drive utility vehicles increased, reaching 1,214 for the month (1,134) and 10,271 for the year to date (9,400).

Reliability of top-selling cars criticised

Financial Times Reporter

SOME of the best-selling cars in the UK are criticised for poor reliability and on several other fronts in the latest annual car-buying guide published by the Consumers' Association.

The 64-page Which? guide reaches its conclusions partly on the basis of 25,000 questionnaires it says are returned by car-owning members, and partly on its own road tests over 8,000 miles of vehicles it buys anonymously.

Ford and Austin Rover take brickbats as well as bouquets: the guide praises the driving qualities of most of the two groups' ranges, but describes some of Ford's Fiesta, Escort and Sierra models as "troublesome" and "unreliable". The guide describes the Austin Metro as being "economical, but it can also be troublesome" and says the Maestro and Montego are "very unreliable".

It lists "best buys" in the smallest-car class as being the Citroën Visa and Fiat Uno, while the Audi 100 and Volvo 200 series come out best for reliability and rust-resistance among executive cars.

As usual, Japanese cars come high on the list of the most reliable although Vauxhall also ranks high on the same table.

Pressure grows on GM to cut imports

FINANCIAL TIMES REPORTER

GENERAL MOTORS (GM) faces a mounting campaign from unions and politicians to increase the UK content of its British-made vehicles and to cut imports.

Workers at GM's Vauxhall car and van plant at Ellesmere Port, north-west England, plan to walk out on Tuesday in the latest move by the unions to force the company to boost production of the Astra car at the plant and to halt imports of the vehicle from West Germany.

During the half-day stoppage the 2,500 workers in the Transport and General Workers' Union (TGWU) plan a motorcade through Ellesmere Port to publicise their campaign.

The action follows a meeting held at last week's Labour Party conference at which Vauxhall union officials spelled out their demands to Mr John Smith, Labour's industry spokesman, during a 90-minute private meeting.

The unions argue that despite repeated assurances from GM that UK content of Vauxhall vehicles would rise and imports be reduced, the company has merely become an assembly operation. They fear there are similar plans in the pipe-

line for the Bedford trucks and vans operation.

The unions also claim that Vauxhall has gone back on an agreement signed three years ago that the Ellesmere Port plant would be the sole supplier to the UK of the Astra, with no imports of the vehicle.

They seek a pledge from Labour politicians that if returned to power, they will introduce a Bill so that the UK content of vehicles assembled in Britain will be measured by weight, not value.

Vauxhall claims its cars have a 60 per cent UK content, which includes labour, rates, electricity and other running overheads. The unions put the figure nearer 6 per cent and point out that only minor parts like trim, dashboard and some electronics are British-made.

During the meeting with Mr Smith it was suggested that if GM continued to ignore the call for a cut in imports and failed to increase UK content, its overseas-made vehicles should have special import tariffs.

There was a further suggestion that a future Labour government might ban government departments from buying GM vehicles.

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UK NEWS

N. Sea oil rundown 'will strain recovery plans'

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE BRITISH economy will again be subject to balance of payments problems as North Sea oil starts to run down towards the end of this decade, Cambridge Econometrics, a forecast group, says today.

Its latest medium-term projection to 1990 suggests that the current account of the balance of payments could be in deficit by as much as £4.5bn by 1988.

It says: "By the end of the decade, the UK will once again be a net importer of oil. Exports of manufacturers, which declined when oil exports increased, are not expected to recover enough to prevent the re-emergence of deficits on the current account."

It believes import penetration of foreign manufactured goods will rise from 31 per cent of the UK market in 1983 to 37 per cent by the end of the decade.

It expects services will generate an increasing surplus on the trade account, but this will not be enough to offset the deterioration of the visible balance.

The forecast group says: "Although the service industries are expected to make an increasingly positive contribution to the balance of payments, the concern is that the international competitiveness of many U.K. service industries has not been tested."

"The U.S. is pressing for British

support for a reduction in barriers to trade in services, and the European Commission is trying to achieve the same objective within the Community."

However, the group fears the failure of manufacturers to respond well to the liberalisation of trade after the second world war may have set a pattern that will be repeated for the service industries.

Cambridge Econometrics believes continued high unemployment (with the total out of work rising to 3.7m by 1990), and the decline in North Sea oil revenues will put pressure on the Government's finances.

Sainsbury chief tops boardroom income list

By Helen Hague, Labour Staff

FIVE UK company directors are receiving more than £1m a year in pay and dividends, according to a survey of boardroom pay trends conducted by Labour Research, an independent trade union research body.

Mr David Sainsbury of the J. Sainsbury supermarket group, topped the pay and dividends earning league with £7,797,312 in 1984-85. He is followed by Mr Roland "Tiny" Rowland of the diversified investment group London, who received £5,272,861.

Mr Terence Conran, of the Habitat/Mothercare stores group, received £1,812,280 in pay and dividends - a rise of 22 per cent on last year.

Of the companies surveyed, 61 paid at least two directors £100,000 or more - and 19 paid five or more directors such a sum.

Of these 19, nine are in the finance sector.

Labour Research's survey says 338 UK directors have an annual salary of more than £100,000. Of these 44 earn more than £200,000, with four earning more than £1m.

"Labour Research Magazine, 78 Blackfriars Road, London SE1 8HF (35 p)."

Directors warned on new law's penalties

BY GEORGE GRAHAM

BRITISH directors have received a strong warning that they must do a better job or risk losing their personal fortunes when the new Insolvency Bill becomes law.

Guidelines issued today by the Institute of Directors advise companies to take immediate action to ensure that their management and accounting procedures are adequate. "It is particularly important for directors to get this right," the guide says. "The personal consequences of failing to do so may be catastrophic."

Under the Insolvency Bill, which is expected to take effect early in 1986, directors may be made personally liable for the debts of a company that becomes insolvent if it has traded "wrongfully." And the degree of efficiency expected from a director will rise significantly.

"The standard of performance a director will have to display will now be without question on a par with that required by law from practitioners in other professions," said Mr Andrew Hutchinson, author of the Institute's guidelines.

"It is notorious that the extent to which many private companies comply with the details of the Companies Act is pretty sketchy," Mr Hutchinson said.

"In these cases directors will be skating on very thin ice if they do not accept formally that they must consider the company's viability."

They will have a duty to ensure that it does not trade wrongfully."

Directors should make sure that formal board meetings are taking place and insist on receiving adequate financial information.

"It is extremely unlikely that the directors of a company that does not have a formal board system will be able to mount a successful defence against disqualification or personal liability for wrongful trading."

The guidelines give the example of a non-executive director in a small private company who draws attention to the inadequacy of the financial information provided to the board. If he failed to do so he might become personally liable in the event of the company becoming insolvent, since board information is generally recognised as crucial.

If the finance director then produces new and grossly inaccurate accounts, his own exposure to liability increases, but the non-executive's may be reduced if the accounts are superficially correct. However, an executive director who, from his knowledge of the company's operations, might reasonably be expected to spot the inaccuracy, could then become personally liable.

"Guidelines for Directors: recommendations and guidance on boardroom practice," IOD Policy Unit, 116 Pall Mall, London SW1Y.

Call for wider ownership of assets

BY PHILIP STEPHENS

A CALL for radical tax reforms to boost personal ownership of financial assets is made today by the Centre for Policy Studies.

The centre, a think tank sympathetic to the present Government, says that the current tax structure is encouraging the concentration of financial assets in the hands of institutions.

By 1988 the proportion of individual financial assets held by insti-

tutional companies and pension funds may reach 70 per cent, up from 44 per cent five years ago, it says.

In a pamphlet timed to coincide with this week's Conservative Party conference, the centre calls for the establishment of personal investment pools which would give individuals tax equality with institutions.

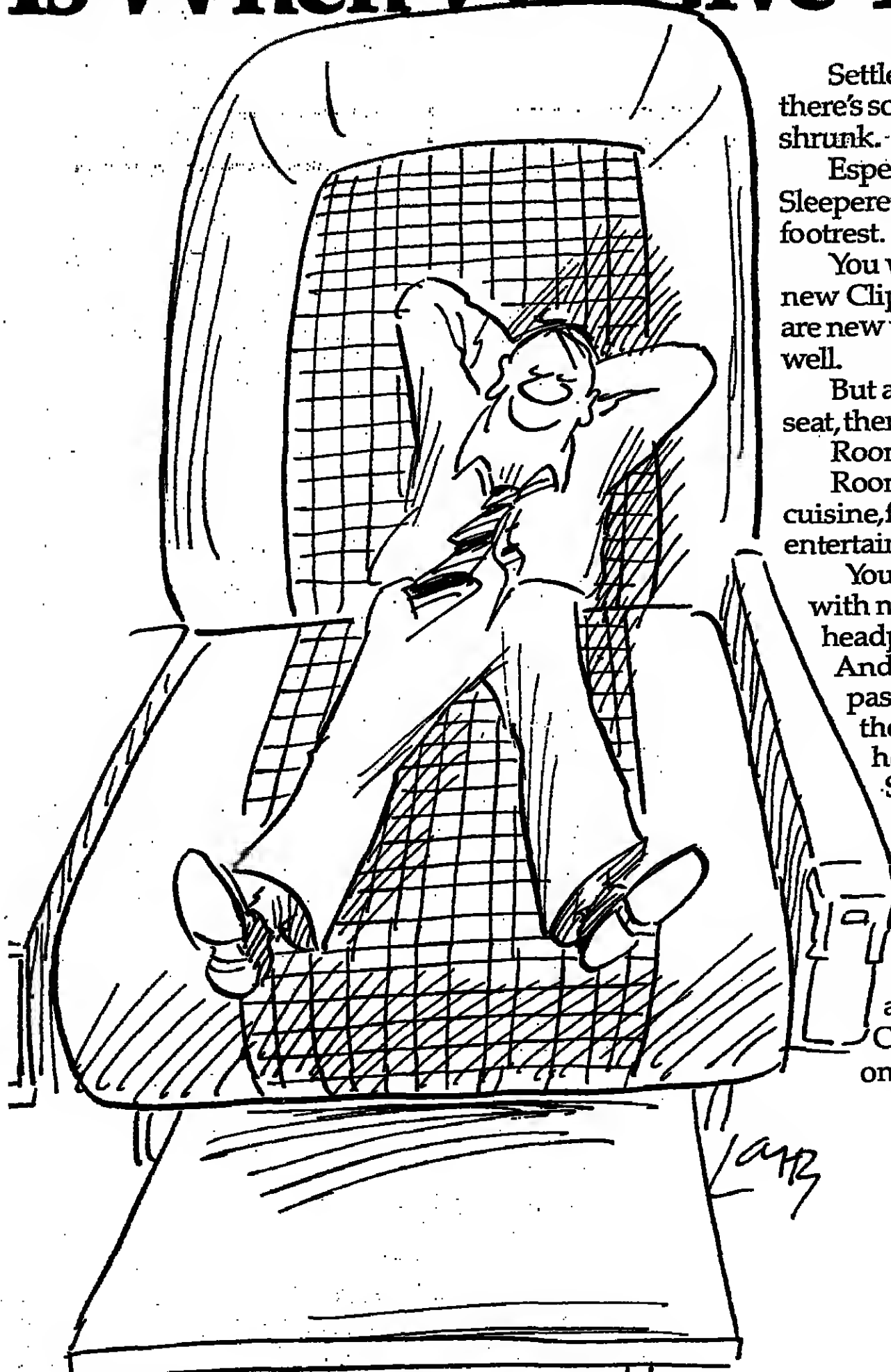
The scheme would work by allowing individuals to put aside a part of

this annual income in a segregated personal pool which they would enter free of all tax. Once within the pool, assets would be accorded gross fund status.

Tax would only be payable when savings were withdrawn from the pool, the timing of which would depend on the individual.

The result, the centre says, would be to encourage enterprise and risk, and to put ownership by individuals and institutions on an equal basis.

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UK NEWS

Guy de Jonquieres looks at the row between British Telecom and GEC

BT's relations with suppliers deteriorate

BRITISH TELECOM's already tense relations with its traditional UK suppliers have taken a decided turn for the worse since the General Electric Company announced last week that it was shedding more than 900 jobs partly because of BT's procurement policies.

GEC blamed BT's decision last spring to order digital public telephone exchanges from Thorn-Ericsson, a UK-based joint subsidiary of Thorn EMI and Sweden's L. M. Ericsson. That will reduce the orders available for System X, the home-grown exchange made by GEC and Plessey.

BT has not responded publicly to the GEC statement. Privately, BT's top managers are angry at what they regard as an unwarranted attempt to offload blame when they believe GEC's own performance is far from satisfactory.

The row is the latest to dog System X, a joint effort between BT, GEC, Plessey and until 1992, STC. BT has spent well over £350m on development since 1983. The fracas also further underlines the continuing conflicts and uncertainties about BT's role after it was privatised last year.

GEC has said the planned job losses partly stemmed from changes in product and manufacturing technology. The shift from older electro-mechanical exchanges to fully electronic equipment is re-

ducing its labour requirements, and employment in its telecommunications switching division has already fallen to 6,900 from 13,000 four years ago.

But the point which hit the headlines, and on which GEC's unions seized most vociferously, was the implication that British jobs were going because BT had chosen to buy abroad. BT refuses the charge—so where does the truth lie?

In the wake of its announcement, GEC seemed less than clear about the precise nature of the job losses. At first, a senior manager in its telecommunications division said the cuts would not touch the System X programme at all.

But another executive insisted later that about 450 of the job losses resulted directly from BT's orders for the Thorn-Ericsson AXE exchanges, known in the industry as System Y.

These orders were announced in early April after BT had spent about six months evaluating rival tenders from Thorn-Ericsson, Canada's Northern Telecom and AT&T and Philips. But GEC says it did not cut System X production capacity earlier because it had hoped right up to the last moment that the System Y orders would be placed.

It and Plessey had lobbied heavily against BT's plans and apparently hoped they would be blocked by the Office of Telecommunications

(OfTel). But OfTel approved the deal in June, although it asked BT to limit System Y's share of total orders for three years—a request which BT rejected.

As BT sees it, GEC was buying its head in the sand. "The System X suppliers were aware as long ago as 1982 that we had every intention of going for a second source of exchanges," says Mr John Alvey, BT's engineer-in-chief. "I find it very difficult to believe the GEC job losses result from System Y."

He also complains that the System X programme has slipped badly and is now running 15 months late. BT's timetable calls for 1,750 local exchange lines to be in service by next March. But so far only 1,000 lines are operating, and BT doubts that more than 900,000 will be installed in the next six months.

It blames the delays largely on failure by GEC and Plessey to get System X into mass-production on schedule. In BT's view, the two suppliers already have more orders than they can meet on time.

The suppliers retort that BT has caused delays by repeatedly changing the System X specifications. OfTel has said there were faults on both sides. They also argue that BT set technically less demanding standards for System Y than for System X. BT says it is harmonising the standards for the two systems.

Whatever their cause, the System X delays come at a bad time for BT, which desperately needs to re-equip its antiquated network. Its inland call volume is growing by about 8 per cent a year and some BT areas warn that unless they get extra exchange capacity soon, subscriber waiting lists will start mounting.

The first System Y exchanges will not be delivered until late next year. As a stop-gap measure, BT is spending almost £100m to equip older TXE4 exchanges to offer some of the computerised services available on System X.

BT will not say exactly how much business it plans to give Thorn-Ericsson, although it does not expect System Y to account for more than 20 per cent of its total annual orders for digital exchange lines. These are expected to reach a peak of 2.8m lines in 1987-88.

BT's longer-term intentions are uncertain because it is revising its network planning in response to competition from Mercury Communications. This is likely to lead to changes in the installation schedule for digital exchanges in different parts of the country.

BT argues that buying System Y exchanges will not damage UK telecommunications manufacturing activity because much of the equipment will be made in Britain.

Thorn-Ericsson expects 70 per cent of the value-added content to be British and says it will employ more than 900 people if BT orders reach 500,000 lines a year.

But such statistics are of little consolation to GEC and Plessey, which argue that a fall in System X's share of orders will harm their economies of scale. According to OfTel, the two companies' production costs might rise by 10 per cent a line if System Y orders total 500,000 a year.

BT's response is that GEC and Plessey should look more aggressively for export sales. It argues that even if System X had no competitors at home, sales to the UK market alone would not be large enough to recoup its full development and production costs.

GEC and Plessey complain that it is difficult to enter foreign markets, and that BT's decision to buy from Thorn-Ericsson is seen overseas as a loss of confidence in System X, which is a late starter on world markets.

The System X suppliers say they are still hoping to make a breakthrough in export markets. But apart from small contracts in the Channel Islands, System X's list of foreign conquests remains short: a single 6,000-line exchange installed by Britain's Cable & Wireless on the Caribbean island of St Vincent.

Employers' pension funding 'too high'

By Eric Short

CONTRIBUTIONS paid by employers into company pension schemes are far too high, says a leading pensions consultant, Mr David McLeish.

He said schemes were showing substantial surpluses largely because employers followed the advice of scheme's actuaries to pay higher contributions than necessary for the security of the benefits. He claimed the usual reasons given for large surpluses—good investment performance and lower membership numbers, were merely contributory factors.

Mr McLeish, a Fellow of the Faculty of Actuaries, is managing director of a leading UK employee benefit consultants, Godwins.

He said pension actuaries often used traditional methods to calculate contribution rates and value the financial position of schemes.

However, these had a tendency to produce high rates and to obscure surpluses.

Traditional methods are claimed to produce stable contribution rates and security for schemes. A funded pension scheme separated from the parent company's finances aims to provide security for the pension and other benefits.

However, Mr McLeish said this meant actuaries would take decisions about benefit structures that should be taken by employers.

He said it was bad financial management to tie up more money in the company pension scheme than was necessary to secure benefits, besides involving the inland Revenue giving more tax relief than necessary.

Export orders show decline

By Maurice Samuelson

THE NUMBER of export orders won by businesses in south-east England in the last three months has fallen substantially, according to the latest quarterly survey of manufacturing trends by the London Chamber of Commerce and Industry.

The organisation says the survey provides evidence that export orders are less buoyant than previously.

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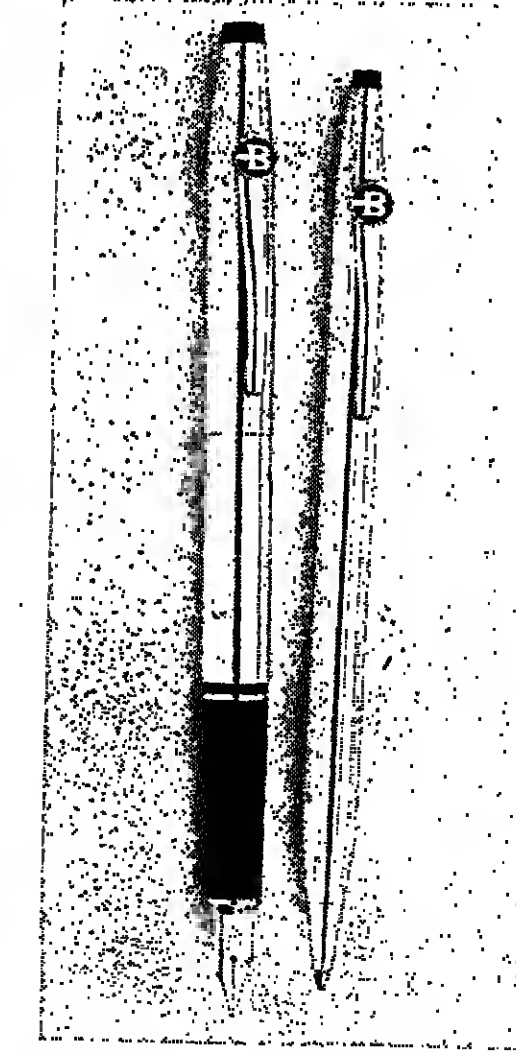
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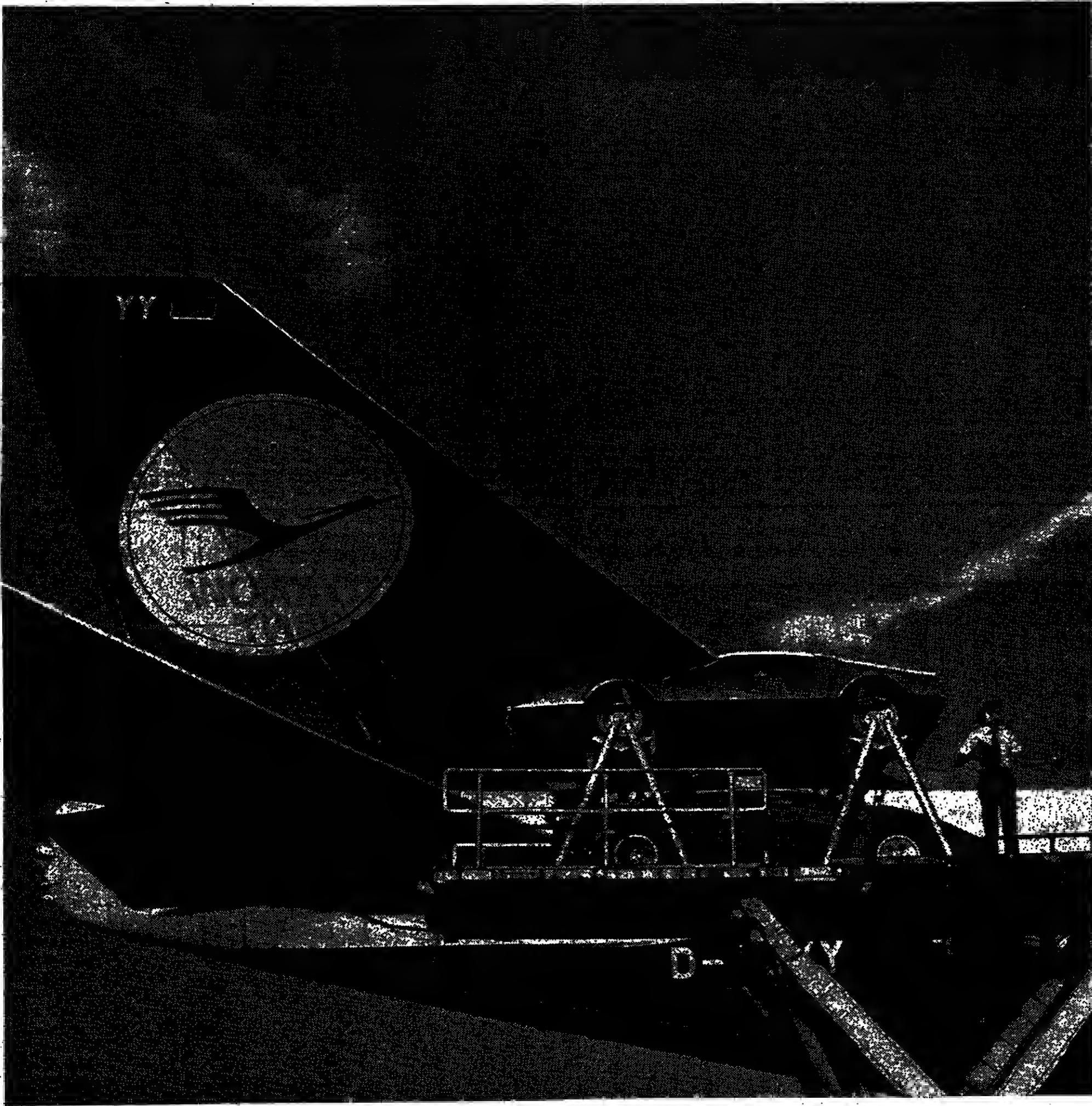
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THE MANAGEMENT PAGE

Automotive parts

Independence is the life for Spice

BY JOHN GRIFFITHS



Gordon Spice: operating in a notoriously competitive market

AT 45, Gordon Spice is an area where the public knows it needs help and advice—and that you simply don't get from the multiples.

He claims to be unconcerned about overall demand, pointing out that the car population continues to grow, and that 18-30 year-old owners of older cars are being encouraged into the DIY market by rising service costs and increased leisure time-factors working in favour of the expert independent retailer.

The essence of the game, says Spice, is fast response times, high availability, wide stock range and being closely attuned to local markets and trends. For that reason, each of the four warehouses operates autonomously, selecting its own ranges.

A distribution operation is being developed, using the cash-and-carry infrastructure and supplying some supermarkets and service station chains but it is being kept well separate from mainstream activities.

Spice himself might have learned the trade by growing up with it but as "old friends" have come along for the ride.

Charles Tippet, 38, joint managing director, was recruited from the Wincanton transport group, where he was chief accountant. Brian Merry, in charge of purchasing and marketing, is a former regional director of GKN-SPA, an automotive parts subsidiary of Guest, Keen and Nettleflood.

A full-time training manager is employed; all new recruits undergo 13 weeks' induction training, followed by three times-a-week sessions for all warehouse employees and full-day seminars for supervisors and managers.

"The business," says Spice, "is the people in it—it's as simple as that."

Why bother with the USM, given that it has every appearance of a comfortable business for Gordon Spice who, with brother Derek has 60 per cent of the equity? Venture capital group Abingworth has 30 per cent and other shareholders include directors and employees in the balance. Spice is also a keen believer in employee share-option schemes as a motivation.

"We've spent three years turning up the business, we've consolidated and it's running profitably with a fully-formed management team. There are lots more opportunities in the car aftermarket to take advantage of. But we're also looking to the leisure market."

"Long-term, we want to broaden the base, and be national. Going public seems the best way for the company and people in it. Employee share ownership in a private company can be problematical. But when it's public, everyone's got a tradable commodity."

such as Booz Allen and Hamilton, through cars becoming more reliable, longer lasting and lighter, and new car markets stagnating.

Competition between car-makers has led them to fit as standard many of the accessories which Spice supplies. (He began his business in 1985 selling competition accessories as an extension of his racing activities.)

But he is convinced that the independent always have a place and that his company, by a combination of tight management controls, the use of technology to monitor closely the shifting requirements of the market and his company's performance in it and employment of a well-trained staff offering a quick response to demands, can command a growing slice of available business.

It is a market estimated by Mintel to be worth over £2.7bn a year but many analysts are gloomy about its prospects.

Replacement car parts sales will be static over the next decade, according to consultants

are launching national chains of high turnover, low margin car parts "superstores," opening late at night, seven days a week. The threat to the 3,000 or so small retailers appears obvious and analysts like Frost and Sullivan believe the trade's ramshackle nature makes it ripe for restructuring. As a major supplier is not Spice a poor USM risk?

Spice, in his trophy-bedecked office at Staines, in one of the four warehouse complexes (the others are at East London, Watford and Leicester), points to his record, even though in the past five years it starts on a down. With the recession biting hard a loss of £73,000 was incurred in 1981 on a £12.15m turnover. The previous year a £78,000 profit was earned on a turnover of £11.8m. Things got even worse. A minority interest taken in RSA Factors, a Leicester cash-and-carry, went sour. "We'd believed all the figures. It expanded quickly, but the operation was badly managed, and by the recession of 1980 it was in deep trouble with cash flow." Since in the

trade's eyes Spice and RSA were closely linked, Spice felt it could hardly walk away. It took management control and shut three of the four branches, retaining only the Leicester warehouse.

Stemming the haemorrhage did the trick. In 1982, Spice was back on track, with pre-tax profits of £294,000 on a £18.9m turnover; in 1983, £15.4m and £342,000; and in 1984 £16.2m and £477,000. In the current half to end-March, turnover was £8.8m, with a pre-tax £294,000.

That inefficient retailers will fail, Spice accepts. But he discounts them going, as a breed, the way of the corner grocery shop. "The marketplace will change and the multiples will cream off the simple, fast-moving business. But car parts and accessories aren't like groceries. For a hell of a lot of people, their car is their biggest investment."

"An independent operator who knows his business has not got a lot of flexibility in knowing what and where to buy—the important ability to hold

the customer's hand. It's an area where the public knows it needs help and advice—and that you simply don't get from the multiples.

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U.S. women managers

What men want to believe

Jane Rippeteau on a gap between perception and reality



IN THE past two decades, women have doubled their presence in executive and managerial positions in American business. And in that time, men have markedly improved their attitude towards these competitive women.

Indeed a recent survey shows that men have warmed to the idea of women managers even more than have the women themselves. More say they would be comfortable working for a woman. Fewer think a woman must "be like a man" to succeed. An overwhelming majority now agrees that women are temperamentally fit to manage. 30 years ago only over half allowed as much. And far fewer say they dislike competitive females.

But these felicitous findings have a darker side. The survey, conducted by Charlotte Decker Sutton and Kris R. Moore and documented in the latest issue of the Harvard Business Review, updates a very similar one it conducted 20 years ago. The same questions posed in 1965 were put to 1,600 of today's male and female executives selected at random from Standard and Poor's and Dun and Bradstreet, corporate register reference books.

Nearly all those managers now view women as expecting and wanting positions of authority—the top jobs. Twenty years ago, half the women and over half of the men rejected that notion.

Yet when the questions move from such generalities into specifics, a disparity begins to emerge between what men think is going on in the workplace and what really is going on.

Pay is a prime example. Two-thirds of the men said they did not believe that women are invariably paid less; 73 per cent of the women said they are paid less. The authors' analysis of salaries tabulated against years of work experience reveal that the male respondents in the survey consistently earn more—a substantial salary differential does exist. Nearly half the men in the survey earn over \$100,000 a year, against just 10 per cent of the women in the survey.

Men also revealed conflicting sentiments on the subject of working for a female boss. One-fifth, now just under a tenth, now say that generally

men feel comfortable working for a woman. But when it comes to them as individuals, they suddenly lose that cooperative feeling. This is particularly true of older men. Some 56 per cent of the men in the two older groups in the survey, those over 41, say they would not themselves be comfortable with a woman boss.

The gap between perception and reality does not bode well for women since it suggests that men want to believe that conditions for women have improved more than they actually have. Male managers are unlikely to alter situations that they do not recognise as flawed.

Fortunately for women achievers, note the authors, the contradictions do not seem to be as pronounced among the younger group of male managers, 31 to 40 years old. These men may "view women not as female executives but as business executives who neither make extraordinary contributions nor create special problems because of their gender," the authors say. Notes one woman respondent: "The biggest factor in the advancement of women executives is the simple passage of time and... of the old boy network."

Another woman corporate vice-president and general counsel looks forward to "the graying of the baby boom generation."

The women believe they will need all the help they can get. They are far less optimistic than the men about the opportunities available to them. The

percentage of women who feel they have at least an even chance of advance within their own companies actually declined in the 20-year period from 40 to 33 per cent. This may be related to an expanded array of opportunities and higher expectations, the authors point out. By contrast, 58 per cent of the men surveyed felt women had equal opportunities in their particular companies, and 42 per cent felt women were on the same race track in business in general.

One disappointing aspect of the HBR survey is that it does not always plumb reasons behind particular attitudes. For instance, there is no airing from the respondents of the fears behind working for a woman boss. Four-fifths of the men are still uncomfortable with the notion and a greater percentage of both men and women say that women do not like the idea of working for a female. This is a key issue, since if women are to advance they must be able to demonstrate management skills.

Clearly, attitudes have changed dramatically. But the reality of change appears to lag. The women at the forefront are unlikely to relax their efforts. Their relative pessimism about their situation simply makes them more realistic. As the authors point out, they "view the disparity as evidence of persisting inequality of opportunity for women in the business world."

Women have had the aid of the Civil Rights Act's Title VII, which makes differential treatment of sex illegal. Even so, considerable sacrifices have apparently been required. Of all the unmarried respondents, 94 per cent were women—almost half of all the women in the survey were single. Only 13 out of 348 were not married.

It is no wonder that a majority of the men and more than three-quarters of the women agree that, to make it to the management chairs and executive suites of American business, a woman still has to be exceptional.

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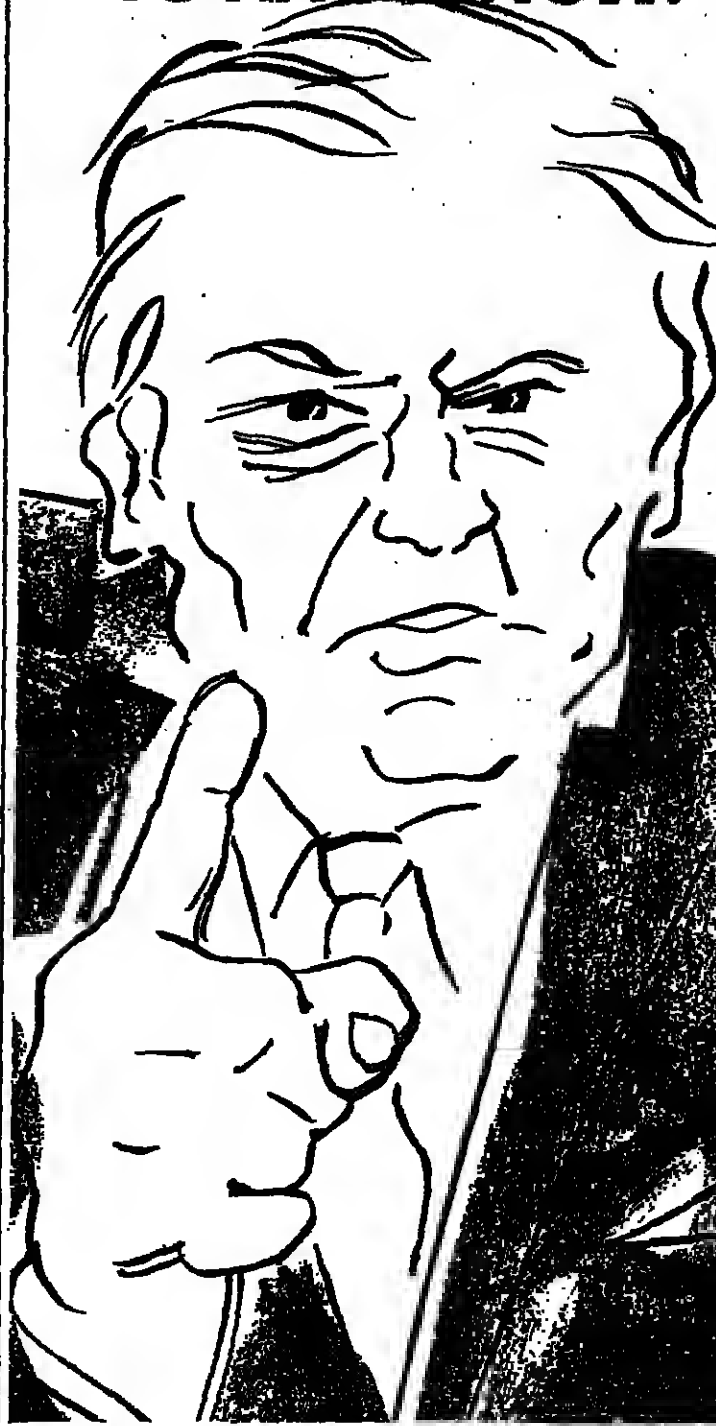
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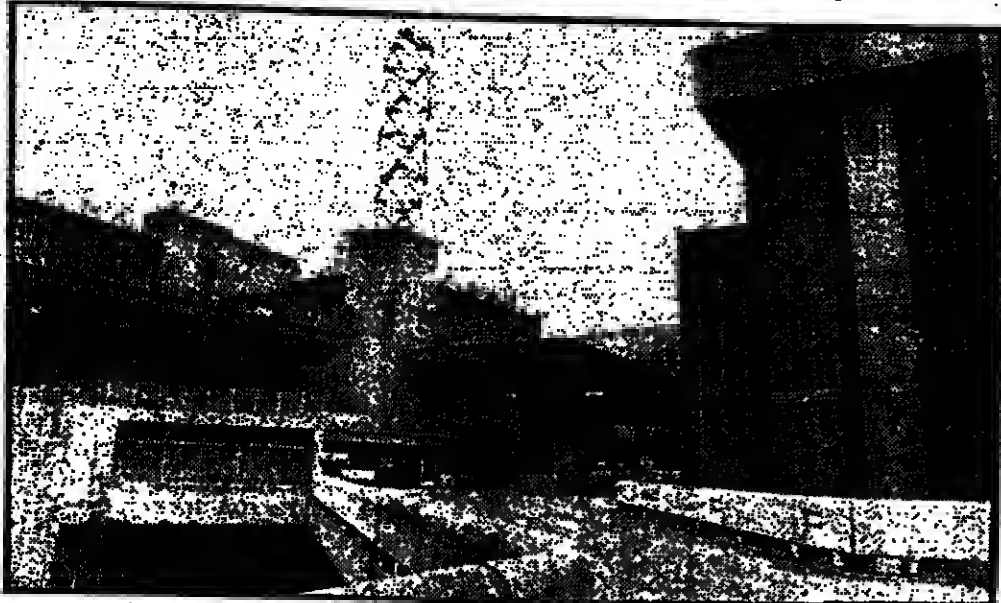
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THE ARTS

Architecture

Colin Amery

Killing the South Bank concrete



Concrete brutalism: the Hayward Gallery on London's South Bank

Fakirs and soothsayers have puzzled over the problem for generations: how do you make the desert bloom? Plans to be revealed today for one of the great urban deserts of the world — London's South Bank — may provide an answer. The Greater London Council dissolves next April and the newly-established 15-man South Bank Board will take responsibility under the Arts Council as landlord of the site. Today the Board will announce that one of its first actions has been to commission a feasibility study from the architect Terry Farrell.

This is not the first attempt to find a way of making the South Bank a more congenial place. Not so long ago the GLC asked the maverick architect Cedric Price (of Fun Palace fame) to envision the dreary acres of concrete. It appeared that his solutions were too theoretical for his political masters who proceeded instead to have an open door policy for the foyers and a large birthday cake twinkling on the terraces.

No one has ever been able to recapture the fragile jollity of the place when it was the home of the Festival of Britain in 1951 and thousands of Londoners, wearing hats and long coats, danced on the terrace of Gerald and his orchestra.

It seemed a more innocent world. A world before the brutalising effect of acres of board-marked concrete. A world full of spiky optimism, wavy roofs and lamp posts wearing hats. The Royal Festival Hall still has a little of the atmosphere of those early years of the Fifties in the design of the carpets, the stylised lyres on the door handles and those bizarre "flying boxes" in the concert hall.

Architect Terry Farrell's proposals appear to get to heart of the problem. He has realised that the mass of elevated walkways that surround the Festival Hall, Queen Elizabeth Hall and the Hayward Gallery ruin the place. If you elevate walkways you have to have their dark undersides; as a result much of the South Bank feels like the damp antechamber of a Stygian cave.

From County Hall to Waterloo Bridge, suggests Farrell, the elevated walkways will be demolished (the concrete of many of the walkways is already suffering from concrete rot so their collapse is inevitable). If you imagine a South Bank without a forest of concrete columns the individual buildings begin to acquire a significance.

Farrell concentrates first on the large space that will be opened up between the Royal

Festival Hall and the Queen Elizabeth Hall. This becomes a planning terminology of a kind of Roman circus where the entrances to the three halls will open. The Royal Festival Hall does make major architectural sense if this side entrance with the ceremonial stairs becomes the main entrance. To gain access to the other concert halls existing staircases will be extended and there will be improved facilities for setting down by car and taxi.

The most innovative element in the proposals is the suggestion to cover the Hayward and the Queen Elizabeth Hall with a giant roof — a light structure made of Teflon-coated fabric — which will be translucent, a kind of giant market hall roof. These huge, pitched roofs will be supported on two rows of slim columns. Like Victorian markets the roofs will keep only some of the rain off; they will be open at the sides. This seems to me a flaw. Covent Garden, for all its vaunted success, is too cold and draughty for winter activities.

Between the Hayward and the Elizabeth Hall there will be a 50ft-wide space with a permanent glass roof. Beneath this the extended foyers and shops will provide the kind of

covered meeting place that has long been needed on the South Bank. Once the concrete buildings are covered up it will, of course, be possible to paint them — and Terry Farrell has already been making his post-modern palette.

From across the river there will be a view of glass, pediments, pavilions and flags. The South Bank itself will feel a bit like the square in front of the Pompidou Centre — although one hopes it will not have that dated hippy atmosphere.

But what is to be done with the Jubilee Gardens site? Apparently it will be possible to build on it and there are plans for an architectural ideas competition. London has a great need for good sports facilities in the centre (why not a Baths of Caracalla for Londoners?).

It is likely that over the next few years there will be opportunities to fill in much of the vacant land on the South Bank. It will not be a desirable place unless it increases its density. There should be a sense of Soho and the Tivoli Gardens and some dark corners for sin. Even Mr Farrell is finding it hard to kill off the South Bank's impression of municipally-ordained culture, but killing the concrete is a good start.

L'elisir d'amore/Covent Garden

Max Loppert

Donizetti's comedy is not one of the "important" operas. But when it is given with spirit, affection, and musical distinction, as it was by the Royal Opera on Saturday, the charm and tenderness of the work are sufficient to light up a theatre and send one home elated. A picky critic might have dug up this or that detail to fuss over in the latest revival, but that should do little to dim the general glow.

The 1975 John Copley production, with its Beni Montresor sets, has come back in good shape. When, in the past, these have been weaknesses of cast or conductor, it has seemed a fussy piece of pretty-pretty; on this occasion, the picture-book colours and top-theatre machinery found their proper place in a revival that had plenty of musical and dramatic colour as well as visual. Graziella Sciutti, that most beloved of Italian light sopranos (would that she could be prevailed upon to give another London song recital!), has taken over the staging, and has kept the fun and farce lively but never obtrusive — the characters tell as characters, not as brightly manipulated puppets.

For the first time in the history of this production, Dulcamara takes on native Italian accents and inflections. Rolando Panerai's voice was in chancy form for the first act, more rather reliable later; his understated dry humour and veteran stage address held firm even when intonation wavered. But perhaps the star performance, this time round, is Belcorra's Gian Quilico, hands some, assured, smooth of voice (no bo-boos here) and delicately important, introduces a patrician note that only intensifies the comic absurdity. A word for the Giannetta of the young, very gifted Judith Horowitz; and a more general final word of praise for the whole assembly.

quickly be replaced by greater verbal sharpness. She plays easily and well with the

Nemorino of Francesco Araiza, who shows more charm and comic dexterity than might be expected of him. If only Mr Araiza could now broaden his vocal range more frequently, could eschew those ho-boos that mar every scale or semi-quaver run, he might become a performer of real distinction.

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Arsenic and Old Lace

Martin Hoyle

Anyone who knows the work of the Glasgow Citizens' Company should have suspected it. The two old ladies who murder their lodgers in a spirit of compassion for the lonely and unloved could not, of course, be played by women. In the event, neither of the hot tips for the roles of the poison-proffering homicidal biddies materialised, Giles Havergal contenting himself with the production and Robert David Macdonald being absorbed in the imminent *Foetus*.

After an amateurishly blocked opening which concealed Aunt Abby's face behind candelabra (et tu, time!) the old ladies of Patrick Hannaway and Derwent Watson were unexceptionable, a sort of muted Hinge and Bracket. The casting deprives the play of its central point, the contrast between the dotty sweetness of the old ladies and the 12 corpses in their cellar.

Nor does the play gain from these mildly amusing, rather colourless performances. In sidestepping the excesses of both Danny La Rue and the pantomime dame, the players avoid both camps. If you leave us wondering whether the only reason for the casting is the lack of suitable elderly actresses. As it is, lines like

"I don't think the police would pry into our private affairs if we asked them not to," instead of sounding naive come over as merely arch.

Colin Winslow's traditional set could be out of French's acting edition down to the last bannister, and emphasises what a staple of repertory and amateur groups the comedy used to be. It still works amiably enough despite this, as the expression of the American accents. In the part that Cary Grant took in the film, Robert Gwilym has the brilliant sleekness of your average dramatic critic (lines like "the theatre can't last much longer. In the meantime it's a living" provoked nervous smiles on the Press night).

John Sommerville has a good shot at the sadist who resembles a Karloff. Clara, Linda under his tunic, Robin Snelter's zest shows that he regards the play as no museum piece. This he has in common with Yolanda Vasquez, robust as well as energetic. The neighbour amorously involved with this cheerful charnel-house; but not, one feels, with the rest of the cast.

True Dare Kiss/Cottesloe

Martin Hoyle

We first met the four football-mad Mancunian girls when they were up for *Temp in Red Devils* commissioned by Liverpool Playhouse in 1983 and a very welcome visitor to the London fringe last year. Both *True Dare Kiss* and *Command or Promise* — also to be seen this month in the Cottesloe's festival of new plays — continue their story. Each play can be enjoyed on its own.

Or, can it? Without glowing memories of *Red Devils* with its funny, touching and truthful observation of four very different mates gingerly testing the water of life with a toe in waning degrees of optimism, a wilderness and anger, I suspect I would have found the second play slightly less convincing and certainly less likeable.

Possibly over-anxious that new arrivals should catch up with the girls' personalities, the author Debbie Horsfield occasionally paints their characters in over-emphatic colours. This leads to a dichotomy

between the humour of wryly-mad Mancunian behaviour and the exaggeration of say, TV comedy.

The nervous Phil is discovering confidence in her own gifts as a college. Bristol University, actually, whose popular image as a safety-net for Oxbridge failures receives a further bash with a vignette of joint-puffing trends referring in awe to Oxbridge and a 1960s time warp. Practical Nita opens her hair-dressing salon. Trim little Alice marries her Kev and finds that marriage is more than present and a nice kitchen when her husband is revealed as a wife-beating thief. The punacious and foul-mouthed Beth, actually, if disastrously, gets a job. Somewhat muted, except as conventional light relief, this character emerges more vividly in the final play of the trilogy.

Towards the end of the second act the play begins to feel its length (nearly three hours, including interval) as a result of tedious and chaotic on and off emotional involvement to another. Nita's affair with a spivvy Lothario on the cocktail lounge circuit (likeably played by David Caray, forms a counterpoint to Phil's dream relationship with a lecturer whom David Fielder embodies with a reticence verging on invisibility. A more genuine tension is provided by the sporadic appearances of the vicious crotch Joey — to resurface, ominously, in *Command or Promise* — whom the unfailingly intelligent Stephen Pether invests with a near-perpetual menace.

Of the four girls, three were in the original *Red Devils*. Sally Jane Jackson beautifully judges the abused Alice's limitations: her loyalty, silliness, obedience to the rules and ultimate resilience. Stella Gower's Phil is the least sympathetically written part, over-reacting to every stimulus, voicing the cliché hostility of the newly-educated towards the background and cliché shock at the reality of economic depression. Tara Shaw's elegant and self-possessed Nita epitomises one of the author's favourite themes: liberation through self-reliance and sheer practicality, in which (and I am unsure how welcome Ms Horsfield finds the comparison) she would win the wary approval of those currently rule our destinies. Nevertheless, I look forward to *Command or Promise*.

The Wand of Youth/Sadler's Wells

Clement Crisp

Given ingredients which include Elgar's *Wand of Youth* music and Rupert Brooke's last poem, *The Dance*, it was not hard to guess the theme of Michael Corder's new *Wand of Youth*, receiving its first performance by the Wells company on Friday night.

It is a return to that familiar golden afternoon of the middle classes before the night of Ypres and the Somme. Charles Maude has provided an elegant setting of conservatory, peopling it with two families and their friends in handsome creamy dress. The burgeoning love of a boy (Michael O'Hare) and a girl (Leanne Benjamin), their brilliant with friends (the brilliant Karen Dobson, Lili Griffiths, Iain Webb) are contrasted with the graceful exchanges between their parents and three friends.

Episodic in treating of the past, years touched with light breaths of emotion and foreboding, the action is gently pleasing, until the final tableau in which all the male members

of the cast—who have already collapsed as if dead in the preceding scene—are ghostly watchers amid the blasted trees of No Man's Land while their womenfolk grieve.

For all its predictabilities, Mr Corder yet fashions out his customary sure craft in making dances. A quilter for the young; a tender duet for Margaret Barberi and Alain Dubreuil as the boy's parents; the sustained atmosphere of the piece, are proof that exercises in nostalgia of this sort can still be made to pay theatrical dividends. There are subtleties of gesture and phrasing in the choreography that impress at a second viewing; performances from the cast are uniformly excellent, and given the pretty music, the attractive stage picture, the piece will prove an audience-pleaser.

About this closing triple-bill of the SWRB season, I have to record, with gorge still risen, that Les Sylphides has acquired a new piano-enriched orchestra.

So blatant and be-tinselled is that the ballet needs Libera en grande toilette to play it as part of the stage action—perhaps tastefully located in the ruins of the set's chapel, with candelabra, coloured fountains and yards of white mink. The baller is already too mannered in performance; this new chain-saw attack on its qualities must be abandoned forthwith. If a different orchestration is needed, then let SWRB look to the Keller/Glazunov version used at the Marinsky and by the Diehlville Ballet.

A revival of Cranko's *Cord* Game ended the programme. To remain as funny as it once was, wit must be substituted for romping. Cranko's jokes are physically acute, as Vincent Hantam and Stephen Beagley—two welcome recruits to the company—showed, and the general face-pulling and imprecise technique is no substitute for sharply-boned virtuosity of comic step.



Leanne Benjamin, Michael O'Hare, Lili Griffiths and Iain Webb in "The Wand of Youth"

Uchida's Mozart/Elizabeth Hall

David Murray

The first thing to be said is that it is not just Mitsuko Uchida's Mozart. She is performing all his piano concertos with the English Chamber Orchestra (sponsored by the Sumitomo Group of companies); the cycle began on Saturday, and continues through the season — tickets will soon be impossible to obtain.

Uchida conducts from the key-board, facing her orchestra. (Other pianists without vanity occasionally do that, but the flip side of a DJ is dull to watch: the expressive Uchida back is quite another matter.) Thus the crucial solo woodwinds are said in limelight, and in such searching performances as these the interplay between them and the piano is wonderfully heightened.

The central flute and oboe, Paul Davies and Neil Black, were creative and faithful partners. The other orchestral soloists will not be deprived, for throughout the cycle the concertos are being interwoven with chamber-band pieces. On Saturday we had Nielsen's disarmingly quirky *Serenade* in one for mixed quintet (some slight mistuning was not part of the joke), and for almost the same group *Till Eulenspiegel* (cavalierly reduced by Franz Asenhardt, his ruses for translating a bit orchestral sweep into, say, violin and bassoon as often peevish as funny; the brusque truncations—a bar

clipped here, two there, five more there—are wittier.

In the Concerto in G, K. 453, the limpid dialogue of winds and piano in the Allegro was perfectly balanced; Uchida can be a genuine accompanist without losing personality. Her first entry was cut-glass, with a music-box left hand, the better to emphasise the emotional range that stretched ahead. She disclosed that with brimming imagination, always contained within the gracious temper of the movement (she can suggest a big dynamic scale without resorting to extremes). Of the second solo woodwind, Mozart said firmly, "Andante, not Adagio" but Adagio it very nearly was, darkly shadowed and sustained with great intensity. Splendid, though I still think the ticking string-accompaniment wants to go a touch faster. The variation finale was brilliantly varied, with hair-trigger switches of tone

and tremendous exuberance.

The storms of the D minor Concerto, K. 466, were realised with hardly a fortissimo in the opening Allegro, and to great effect — "bushed turbulence, precise anguish. Uchida's strict tempo delivery of the piano's first lyrical paragraph was an inspiration (Girdlestone's advice to treat it like free recitative loses the momentum of many a performance). Here and in the Finale Uchida gave us grandly dramatic cadenzas—Mozart left us none—on a matching scale: perhaps the second, so late in the work, was too much of a good thing. Both the initial innocence and the later turmoil of the *Romanza* were transmuted with sharp subtlety, as equally the struggles and sudden rocketing major-key cheer of the Rondo. This cycle is going to be uniquely vivid, and should set a new kind of standard.

Saleroom/Antony Thorncroft

Charities' \$10m windfall

While Christie's has secured the sale of the late Sir Charles (Clare) Clive's furniture, and is building its first auction in Monaco around it on December 6, Sotheby's is to dispose of his pictures and portrait miniatures.

The miniatures are regarded as the finest collection to appear on the market for 50 years and will be disposed in two sales in London next year. The 400, mainly Continental, examples include all the pre-eminent names: Augustin, Isabey, Fragonard, Boit and Fuger.

On December 3 in London Sotheby's sells the Impressionist and modern pictures from the Clive collection. The most valuable should be an early work of 1891 by Paul Signac, a pointillist scene of fishing boats entitled "Brise, Concarneau." It is likely to make more than £400,000.

Other important paintings include "Deux personnages," by Picasso (estimate \$350,000-£380,000); a Fauve still-life of fruit by Maurice de Vlaminck (£200,000-£250,000); a Sisley view of the Seine (estimate around £200,000), and a Ben Nicholson of 1948 "Roofs at St. Ives," (estimate \$50,000-£70,000).

Among his sporting pictures, to be sold on November 20, is a Ben Marshall of the 1927 Derby winner, Mamehuke. It made £40,000 at the Dick sale in 1973 but is now valued at £100,000. Two paintings by Sir Winston Churchill will be offered on November 13.

Together with the furniture, Jewish charities stand to receive over \$10m from the sale of Sir Charles' works of art.

The most interesting auctions in London this week are tomorrow, when Christie's sells the second part of an important collection of ancient coins and Sotheby's holds an evening auction for the benefit of the Aldeburgh Foundation.

The most valuable coins are an aureus of Paganus Niger, struck around AD 193 and estimated at £25,000-£35,000, and a multiple solid of Constantine II, one of a series of medallions celebrating the establishment at Constantinople of an administration based on that of Rome (estimate £15,000-£20,000).

The highlights of the auction in aid of Aldeburgh are a study of clouds by Constable and a Rodin "bronze," "Trois Femmes," both donated by Sir Peter Pearce. Each should make around £20,000.

Mahler, Vienna and the 20th century

Shell UK, Patek Philippe and the Union Bank of Switzerland have brought the total sponsorship of the London Symphony Orchestra's Mahler, Vienna and the Twentieth Century festival up to £135,000.

After the first part in the spring when attendances for the LSO concerts averaged 90 per cent the autumn cycle of the festival (total cost £450,000) has been launched with a full house at the Royal Festival Hall and all LSO concerts conducted by the music director, Claudio Abbado, sold out in advance.

Besides the Royal Opera's double-bill of operas by Zemlinsky, Schoenberg's brother-in-

law, the autumn leg of the festival includes this month's opening of the exhibition devoted to the Viennese architect Adolf Loos. At the Oxford Museum of Modern Art until December 1, the exhibition will be seen in London at the ICA from December 12 to January 21.

On October 20 the Barbican's Cinema 2 shows TV films directed by Barry Gavin on the Second Viennese School, Schoenberg and Berg; while on October 23 A. Bask of Gold, Michael Frayn's evocation of fin-de-siècle Vienna, will be coupled with a documentary on Gustav Klimt produced by Istan Szt61s.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

ITALY

Milan, Teatro alla Scala (autumn music season): Giandomenico Guazzoni conducts Mendelssohn's violin concerto (Venezia, 1985) and Beethoven's 5th symphony (Wed, 19.15.20). Venice: Gennaro Tassi in *Verdi*: Giandomenico Guazzoni conducts *Verdi*: Enrico (in the form of orchestra), Mon. 20.15).

VIENNA

Please evening with Stefan Vladar. Haydn, Beethoven, Chopin: Music.

Vienna: Brahms Seal (Fri, 19.15.20). Vienna: Hofburg Orchestra conducted by Gert Hofbauer: Waltzes and Light opera. Softensal (Tue, Thurs).

PARIS

India's South: Karnatic Music (Tue, 19.15pm). Radio France. (24.15.16).

WEST GERMANY

Frankfurt, Alte Oper: There will be two later recitals with Dietrich Fischer-Dieskau, accompanied by Hartmut Holl with Schumann and Mahler (Sun, Tue).

Oct 4-Oct 10

NETHERLANDS

Amsterdam, Concertgebouw: Antoni Ros-Marba conducting the Netherlands Chamber Orchestra, with Antonio Meneses, cello: Rosini, Boeschoten, Elger, Kozma (Mon, Tue). The Concertgebouw Orchestra with the Amsterdam Percussion Ensemble: Crumb, Mäkelä, Xenakis, Thu. 19.15.45.

TOKYO

Vienna NS Tonkünstler Orchestra conducted by Atsushi Nukui, All-Mozart evening. Yopok Kamikawa Hall, Gotanda (Thurs), 6.15.1200.

NEW YORK

New York Philharmonic (Avery Fisher Hall): Giuseppe Sinopoli conducting. Sir George Solti conducting. Tamas Vancsary, piano, Barbara Bonney soprano & Chicago Symphony Chorus. All Mozart programmes (Thurs), 4.35.12.22.

CHICAGO

Chicago Symphony Orchestra Hall: Sir George Solti conducting. Tamas Vancsary, piano, Barbara Bonney soprano & Chicago Symphony Chorus. All Mozart programmes (Thurs), 4.35.12.22.

WASHINGTON

National Symphony (Concert Hall): Metlav Rostropovich conducting. Sibelius, Salinen, Beethoven (Thurs) Kennedy Center. 7.15.81.10.

LONDON

Royal Philharmonic Orchestra, Antal Dorati conductor. Ysa Pascal Turle, violin, Paul Turle, cello, Maria de la Pen, piano: Beethoven. Festival Hall, Tue. (22.31.21).

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FINANCIAL TIMES

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Monday October 7 1985

New directions at the IMF

IT IS EASY to get excited about the U.S. Treasury's new-found enthusiasm for international economic initiatives, the latest of which—on Third World debt—is being pieced together at the World Bank/International Monetary Fund annual meeting this week. It is less easy to judge whether this unexpected activism is likely to prove successful, for, while everyone can become the present problems of the international financial system, there is less agreement on what the U.S. initiatives are meant to achieve.

On the single most important international imbalance—the deficit of the U.S. budget deficit, the over-inflation of the dollar and the concomitant U.S. current account deficit—a profound ambivalence has long been evident among the world's leaders. The over-valued dollar has done a power of good for European and Japanese export industries and made a substantial contribution to the Federal Reserve Board's success in keeping inflation under control. Now that the dollar has started to depreciate, differences of opinion are already emerging about how much further the adjustment should go.

Surpluses

West German officials in Seoul are suggesting that they now regard the dollar as reasonably valued. However, the Deutsche Mark, while Mr. Paul Volcker, the Federal Reserve Chairman makes no secret of his fear that further depreciation of the dollar, in the absence of major moves to cut the U.S. budget deficit, could do more harm than good. However, U.S. industrialists and Congressmen who have been clamouring for protectionism may not be satisfied with the gentle reversal of the dollar's trend which Mr. Volcker and his European colleagues have in mind. While the New York agreement on intervention certainly marked a step towards international economic co-operation, the serious part of the journey, involving adjustments in macro-economic policy on both sides of the Atlantic and the Pacific, has hardly begun.

On Third World debt, the absence of a consensus goes deeper still. The Reagan Administration has belatedly recognised that its earlier adjustment policies are unlikely to re-establish debtor countries' creditworthiness, even when they succeed in generating huge trade surpluses. Mr. James

Baker, the U.S. Treasury Secretary, is therefore calling on the World Bank to play a greater role, alongside the IMF, in designing longer-term development policies for the debtors. The object is to combine external adjustment with market-oriented policies and faster domestic growth. The general idea has much to commend it, but, as in the case of the dollar initiative, Mr. Baker may not yet realise how many institutional and philosophical unheavals will be required before any work can be done.

The most obvious problem is that very large amounts of new money will be required to provide any significant relief from the debtors' external constraints. Even after an increase in the World Bank's capital, most of the new money will have to come from commercial banks. This may require more cajoling, or even legislative pressure, than anything seen in the debt crisis so far.

A more surprising obstacle could arise among the debtors themselves. After their bitter experiences of the past few years, many debtor countries seek more security in protectionism and even autarky than in integration with the international financial system. They may only be interested in new financial flows, particularly ones conditioned on challenging domestic policy changes. If these moves will clearly remain sustainable over a period of many years, the "short leash" approach, under which the debtors have to renew their pleas for new money each year, is unlikely to prove acceptable. Yet, from commercial bankers' point of view, there could be fierce objections, to say nothing of regulatory and prudential problems, if it becomes clear that lenders must commit themselves years in advance to the sort of multi-year new money facilities which are likely to be required.

Such obstacles should not deter the world's leaders from pursuing energetically the sort of new approach to the debt crisis which Mr. Baker has outlined. The problem is not that the reforms are all-boluble, given a willingness to compromise and accept a reasonable sharing of the financial burden by debtor governments, banks and governments of the creditor countries. As in the case of the macro-economic imbalance between the U.S. and Europe, the existence of theoretical solutions does not guarantee the political will to put them into effect.

Braking China's headlong rush

CHINA has just seen the most public discussion of policy shortcomings among senior leaders since Deng Xiaoping eased Hua Guofeng out of office in 1981 because of the failure of his over-ambitious economic plans. Deng's fellow octogenarian, Chen Yun, twice attacked the symptoms of "decadent capitalism," which he implied, were the cause of Deng's reform policies. Chen Yun concluded his first speech with what some have seen as a criticism of Deng's steamroller style, that "no individual should try to have the final say," and all decisions must be made by the collective.

Foreign observers are divided on whether the tip of an iceberg of much deeper dissensions, or a healthy sign of a leadership maturing since the days of Mao and now able to accommodate a wider range of views. It must be said, however, that China is still a country where criticism voiced publicly is milder than when it is made behind closed doors. Outsiders are left with the evidence of, at the least, a difference of emphasis at the highest levels in Peking on how China should tackle modernisation.

'Open door' policy

Peking's leaders of all hues, Chen Yun included, say they support economic reform and the "open door" policy. There is no suggestion that anyone seeks a return to Maoism and economic self-reliance. Chen Yun represents the conservative viewpoint which successfully stimulated China's economic development in the 1950s and opposed Mao's "great leap forward" of 1958. Deng's reforms have generated considerable problems, and the need for a touch on the brakes is conceded by Deng supporters generally. But it seems unlikely that Deng will switch back to the emphasis on central planning that Cheo Yun appeared to advocate.

Indeed, Deng was able to further his own cause two weeks ago by replacing a large number of elderly party officials with new blood. His chosen successors for party and government

top jobs, Hu Qili and Li Peng, were promoted to the politburo. In that key body he cut the conservative military element from nine to three.

With better management at the centre, there is more hope that the reform policies, which would be difficult, in any case, to implement in a country of China's size and lack of development, may win through. They have boosted agricultural production since 1979 to the point where most people have seen improvements every year in diet and dress. Deng and his supporters now have to get to grips with the confusion caused by last autumn's urban reforms which, by encouraging business initiative and decentralising power, have also promoted fraud and corruption on a significant scale.

The urban reforms generated problems of industrial over-production and strains on transport and energy resources. Foreign exchange reserves have been depleted to the point where Peking was apparently unwilling to publish its normal quarterly monetary figures, and Chinese ministries are openly arguing about the size of this year's expected trade deficit.

The most intractable problem is likely to be commercial crime and speculation among a people long-starved of the humblest consumer goods, who this year were able to import the electronic hardware that much of the world takes for granted. Initially this is being curbed by new regulations, but they are unlikely to be effective unless higher standards of public behaviour can be encouraged.

What China now needs is a stable leadership which will apply the reform policies in a pragmatic way without reverting to old habits of dogmatic inflexibility. Deng supporters have already slowed down the headlong rush into economic modernisation, as reflected in the cautious proposals for the next five-year plan. If, at the same time, steps can be taken to reduce corruption among senior officials, the modernisation of China's economy stands a better chance of success.

WHEN DOES an electronic network become a stock market? Does the information on that network need to be properly regulated? Those are the questions that have driven the London Stock Exchange to a collision course with Reuters, the international business information group which is busy building a screen-based price data and dealing system to serve global investors in equities.

In an unprecedented way, a combination of deregulation and technological development is threatening the framework upon which securities markets such as London's have been based. The markets are being forced to restructure their trading systems and reconsider the ways in which they communicate with their clients.

In London, business has traditionally been transacted by means of time-honoured rituals conducted on a trading floor but all this will soon be scrapped except for a minor element of the smallest transactions, in favour of a system based upon telephone conversations and digital pulses, with no particular geographical boundaries.

These days there is already an active market in Cointinuity equities in London and many UK equities are traded in volume in New York. As a result, there are extra opportunities for international information networks. Reuters, not only in terms of transmission of data but also, potentially, in the central activity of the trading of securities.

The Stock Exchange's fear is that this will fragment the central market place and dilute its regulatory authority.

Despite intensive negotiations covering many months, Reuters is still holding out an elaborate list of 12 conditions which the Stock Exchange is seeking to impose before allowing it access to the price quotes of market makers carried on its real-time market information service, Stock Exchange Automated Quotations (SEAQ).

Although SEAQ, covering domestic stocks, will not become operational before the Stock Exchange's trading system is restructured in a year's time, a version covering foreign stocks called SEAQ International is now being rapidly developed. A restricted service is already available on the Tropic screens of the Stock Exchange.

Tropic is the Stock Exchange's own information service, which until now has carried a mixture of news and indicative prices. There are currently 3,500 terminals out with member firms, institutional investors and the media.

By the end of next year 6,000 terminals are expected to be in place, reflecting the extra demand for the detailed displays of "quotes" of competing market makers and details of trades which SEAQ will make available—at least for first line or "alpha" stocks.

Hard on the heels of SEAQ International, last month Reuters launched a series of composite pages on its service. These include quotations for international equities from a number of competing market makers. But the Stock Exchange has raised member firms' permission to contribute to these composite pages, on the grounds that it would be inappropriate to mix up member and non-member firms. There is no question of Reuters' service for domestic equities being made available at this stage.

Gunn running

John Gunn is back in town. He returned at the weekend from a holiday in Switzerland after resigning from Exco, the financial services company he created.

All last week the City was buzzing with speculation about why he had left. Gunn, 33, is, after all, regarded as one of the most dynamic entrepreneurs in London's financial community. In the stock market on Friday it was suggested that he had quit to take over Midland Bank. "Rubbish," he tells me.

Gunn has been equally surprised to hear his name linked with Gerald Ransome's Heron Corporation, Hanson and Smith Bros in possible takeover association. "Obviously, I have not decided what I want to do. I have had three extremely interesting offers."

From financial services groups? "One of them just about squeaks in that category," he says.

He adds: "I am not looking to be chairman of this company or chief executive of that. I just want to work with people I like."

He dismisses earlier suggestions that he might be interested in forming a venture capital company. "You can forget that. I am perfectly happy in big companies but I am not looking for a job necessarily in the same salary league as at Exco."

So why did he leave Exco then? "I had reached a hiatus period. I knew the way I wanted to go and my ideas are too idealistic. I felt that what I wanted to implement would not have got the majority support of the board. They will probably do things at a slower pace."

In leaving Exco, Gunn has signed a non-competition agreement over money brokering trading, Exco's core business, so his former colleagues may be able to get a comfortable night's sleep.

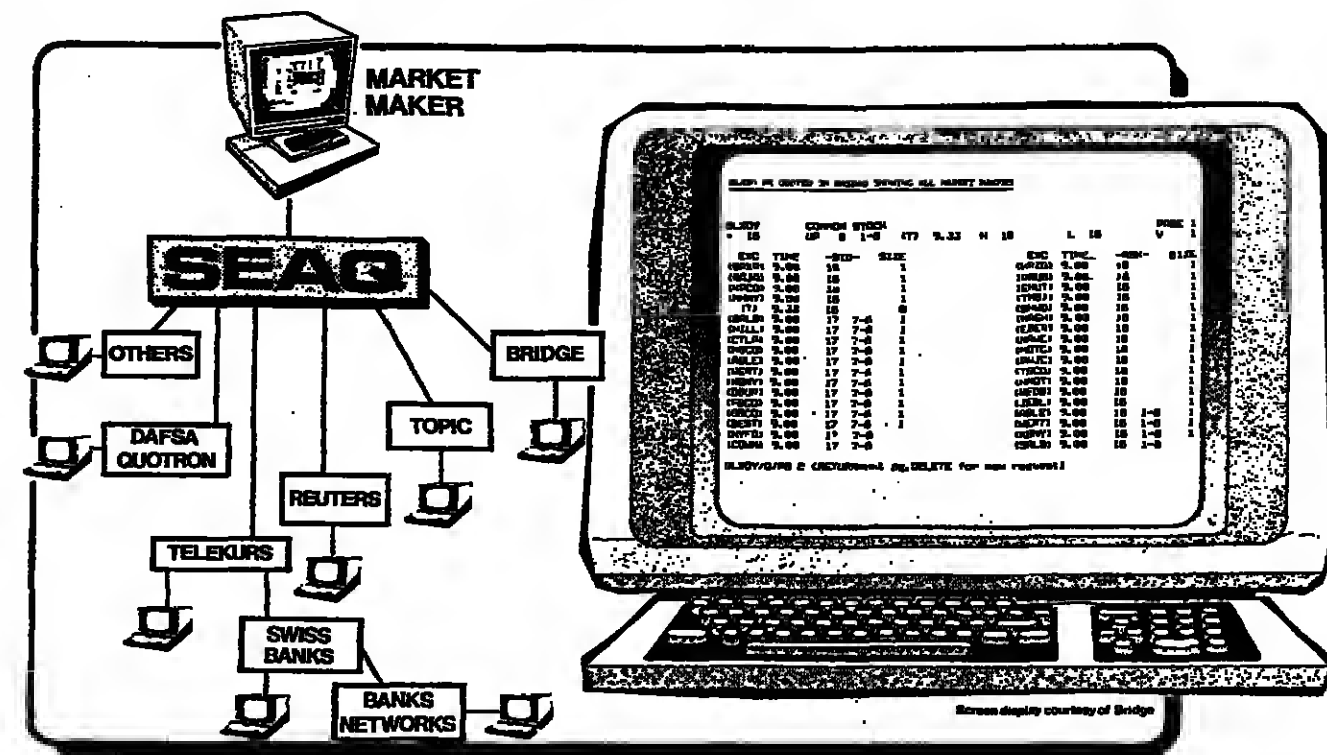
Wrong number

Newspapers get their informa-

THE BATTLE FOR ELECTRONIC MARKETS

Where the Stock Exchange draws the line

By Barry Riley, Financial Editor



How SEAQ International will ultimately channel market information and (right) a typical page of American ADR prices

The irony is that some of the contributors to SEAQ International are also non-members of the Stock Exchange. But it is argued that these firms—including Bache Securities, European Banking Company and Goldman Sachs—have all given an undertaking to join the Stock Exchange as soon as membership is opened up. In the meantime, they are subject to a code of practice.

The conditions laid down by the Stock Exchange also include requirements that all quotations should be carried without exception, that the information should not be used on an execution system, through which bargains can be transacted electronically. This is also relevant to Reuters, which is planning to introduce the Instinet electronic trading system to the UK shortly, initially covering only US stocks. Instinet is a well-tried system which currently handles between 2 and 3 per cent of all equity trading in the U.S.

The Stock Exchange insists that it wants to do a deal with Reuters and points to the fact that other information networks such as Telekurs, used in Switzerland and Germany, and Bridge, an American system which has installed some 60 terminals in London during the past year, have accepted its terms.

But Mr. Greg Moore, managing director of Bridge Data in the UK, says: "We have been able to comply but I am not happy with their conditions because I don't think they are in the interests of the public. They are crazy trying to hold the fence around them for another year. Every day the market

moves a little bit more to New York."

The pressure on the London market is illustrated by the current proposal by the Stock Exchange Council to allow access by the New York offshoots of member firms to the active Wall Street market in the ADR versions of major domestic UK stocks such as ICI, Glaxo and the current star BAT Industries.

ADRs—American Depositary Receipts—represent shares deposited with American banks, and are a convenient form of investment for U.S. institutions. Until comparatively recently, trading in ADRs was on a limited basis. Member firms of the London Stock Exchange have, in effect, been banned from dealing in them because of the danger of fragmenting the central market in London.

But the Stock Exchange is faced with the frightening prospect of "trading" in New York in some leading stocks like ICI and BAT is now more active than in London. These markets are now becoming tempting in terms of price and liquidity for British investment institutions, which have previously rarely dealt in New York—and then only as a way of avoiding the stamp duty charges on London transactions.

Screen systems like Quotron, Bridge and, soon, Reuters' Instinet are giving London investors easy access to the New York market—and New York has just altered its opening time advancing first dealings to 9.30 am (2.30 pm London time) to encourage international business.

Meanwhile, there is a rapidly developing local business in London in international equities on an unofficial over-the-counter market including the ADR versions of UK stocks (which continue to be banned from the Stock Exchange's Tropic screens).

In the Stock Exchange's misguidedly playing Canute against this tide? Mr. Peter Benjamin, special projects manager of Reuters Europe, thinks so. "By not permitting the composite display, London members will be disadvantaged," he claims.

In any case, Reuters points out the software will soon be available for users to preprocess data so as to reproduce prices from several different pages on one screen. They will then be able to create the composite pages that the Stock Exchange is prohibiting.

Mr. Peter Cox, project manager for international markets at the Stock Exchange, quickly deflects such criticism. "If a subscriber does this, he knows what he is doing," he argues. The important thing is to make sure that the publicly available display conforms to a code of conduct. What the user subsequently does to the information is less important.

The Stock Exchange is pre-occupied with questions relating to regulatory boundaries, and the need to impose guaranteed quality standards which can be recognised by the user.

Screen-based quotation and execution systems can be plagued by a variety of hidden snags. The quotations may get out of date; they may be valid for different sizes of transactions; different currencies could get mixed up; and settlement arrangements may vary. When it comes to actual execution, the question of credit risk also needs to be carefully tackled, because users need to be confident of the ability of the counterparty to deliver.

Some markets are free-and-easy and still succeed, like the Eurobond market. Anybody with the right telecommunications equipment can join. But the London Stock Exchange is very different. It has an intricate rule-book, its member firms are tightly supervised, and there is a compensation scheme to protect users of the market.

Last week the Stock Exchange Council introduced a package of new rules in preparation for the restructuring of the market. It ordained that substantial outside investors in the rule-book and the means to impose it, but cannot be imposed by an external member fails to fulfil its regulatory obligations.

In this context it is easy enough to see why the Stock Exchange is reluctant to allow its members' quotations to be mixed up with those of other Reuters contributors, which might be regulated by no-one.

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Men and Matters

tion in many different ways. But the FT found a new one of Friday.

The facsimile machine in our Tokyo office suddenly spewed out pages of "Private and Confidential" documents detailing terms for a HK\$25m loan from a British bank to a British firm of stockbrokers.

Mr. S.P. should check that his staff did the right numbers in future lest any documents end up in less scrupulous hands.

Palme's fee

With the world's biggest public sector to finance, Sweden pay higher taxes than any other nation. And the latest victim to be caught in the revenue's finely-meshed net is none other than Prime Minister, Olof Palme.

Back in April last year, Palme gave a lecture at Harvard University and, as usual, turned down the fee for such an appearance.

Some months later, Palme's son, Joakim, began a term of study at Harvard and the University, without Palme's knowledge, used the fee to fund Joakim's scholarship.

The question of whether this money should have been declared as taxable income by the Prime Minister suddenly emerged during the recent general election campaign in which the question of taxation loomed large.

be treated as income; and, given that Palme is now paying 80 per cent tax on marginal income, fully SKr 32,000 (£2,800) of the fee is owed to the state.

Palme's Conservative opponents were promising to bring the average marginal tax rate down to 40 per cent if they won the election—but Palme probably considers the extra price of his victory worth it.

Of some note

It was a moment to savour. Imagine, if you will, the board of Tate and Lyle—say about 10 members—crowded round the chairman, in a tent on the Adriatic coast, serenading their dinner guests.

Well, that was the sort of scene on Saturday night when Italy's third largest company—the US\$5.5bn turnover Ferruzzi agribusiness—erupted in song on the outskirts of Ravenna.

The occasion was Ferruzzi's first-ever meeting with the Prime Minister, Ciriaco De Mita, in an event of some note, anyway, for a company which is Europe's largest sugar conglomerate and which holds 2.5m acres of land in Italy, South America and the United States. (Price Waterhouse is preparing the empire's first consolidated balance sheet for next year).

The festivities got under way in earnest halfway through the dinner when one of the local waiters broke a plate and, in true Emilio Komagata tradition, began singing.

Before long, the waiters had brought out a guitar and were serenading Dr Raul Gardini, Ferruzzi's managing director, whose family owns the whole of the group. And then the executives joined in.

Imagine Fiat chairman, Gianni Agnelli, or Olivetti chairman, Carlo De Benedetti, in such a relaxed mood. But it was too mind-boggling.

Ida Ferruzzi Gardini, wife of the managing director, pointed at the pinpricked group of singing executives and said simply: "This board of directors is so full of life."

Parking space

Soviet leader Mikhail Gorbachev's efforts to enlist Western public support for his views on arms-control issues are not the only signs that the Soviet Union is brushing up its public relations techniques.

The country is to use next year the decidedly unusual venue of a theme park in Southern Holland—a Dutch version of Disneyland—as a place to publicise its activities in outer space.

Over the coming months, the USSR Academy of Sciences will be transporting 150 tonnes of assorted space hardware, including models of the Salyut-7 space station, to the park in Kaatsheuvel for a six-month exhibition starting in April.

A guiding hand in planning the exhibition, claimed to be the biggest display of Soviet space technology ever seen in the West, has come from Dutch journalist Peter Smolova, an authority on Soviet exploits in outer space.

The event, which has been preceded by years of negotiations between the Dutch and Soviet governments, will highlight the USSR's civilian space operations (the growing of crystals in orbiting workshops, for example) but draw a discreet veil over the military side of extraterrestrial activities.

Heard in a City bar: "Life may begin at 40, but every other damned thing starts to wear out, fall out or spread out."

Observer

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ANOTHER PELCOM EVENT

IN THE theatre of politics, the reaction of the audience is often as diverting as the act of the performer. What I have particularly enjoyed about Mr Mikhail Gorbachev's star turn in Paris last week was the way right-wing commentators rushed into print to pan it. If they are so quick to rubbish him, the reasonable suspicion must be that he is doing rather well.

William Safire, of the New York Times, concentrated his attack on Mr Gorbachev's "Charm Offensive," both inside the Soviet Union and in his dealings with the outside world, on the grounds that it was totally lacking in credibility and would therefore backfire. On the one hand, his exposure on television showed that "he is not such a hot actor." On the other, some of the things he says in public for example about the enviable position of Jews in the Soviet Union, are obviously untrue.

The editorial writer of another newspaper in London attacked Mr Gorbachev's proposal for a 50 per cent cut in strategic nuclear weapons on the grounds that it might be valueless, if not positively dangerous, in preserving the "counterforce" superiority of the Soviet Union's larger and later Continental Ballistic Missiles; at all costs, he went on, the U.S. must stick to its "Star Wars" anti-missile defence programme, because only this could rescue us from nuclear instability.

This is an eccentric argument on several counts. But the most significant point is that it is quite impossible to pass any judgement at this stage on the strategic implications of the consequences of Mr Gorbachev's offer. The details of the Soviet proposal have not been published, nor have they yet been shared with America's NATO allies; negotiations on these and the earlier American proposals are only just starting, and will certainly take months if not years; so it seems premature, to say the least, to make any sweeping assertion about the final outcome.

Sceptics will naturally assume that the Soviet opening position would be biased in favour of Soviet interests. But it takes two to tango, and even the sceptics must surely expect that the U.S. negotiators are as competent as their Soviet counterparts in safeguarding their own national interests.

The political implication of a large reduction in strategic nuclear weapons is that it implies a retreat from, if not a renunciation of, any flirtation with the idea of extended nuclear war-fighting. Politicians and strategists in the West, in the hope that nuclear exchanges could be limited and refined and controlled, so as to push out over the

Foreign Affairs

It's a sin, a double sin to tell a lie...

By Ian Davidson

horizon the awful prospect of Armageddon. To this end, they have driven nuclear arsenals in the direction of smaller and more accurate weapons, to be able to strike military targets rather than large population centres.

But the chance that either side could in reality control nuclear strikes over any extended period is so small that it can scarcely be depended upon as a central policy objective. In the first place, nuclear attacks would inevitably kill large numbers of civilians, especially in the Soviet Union, because their missile silos are near large population centres. In the second place, the command and control systems which would be essential to any controlled war-fighting are inherently fragile and liable to fall apart in conditions of nuclear war, even if they were not the object of deliberate attack—which they would be.

On the grounds alone, some of the most influential recent strategic studies have concluded that the "controlled" period in a nuclear exchange might be measured in hours, not days, let alone weeks. Daniel Ford, author of *The Pentagon's Strategic Command and Control System*, carries this argument a whole step further. Not merely is the command and control system intrinsically fragile, American naval and air force officers simply do not believe in controlled war-fighting. Ford quotes a retired admiral: "The point is when you are attacked... We will

then shoot. But, by God, we're going to shoot and we're not going to sit there and Mickey Mouse it with option three and option four. We're going to take out the cities." None of this means that the nuclear balance is unstable; on the contrary, both sides are deterred by fear of the horrific consequences. But the dislocation between theoretical objectives and operational probabilities is worrying, and that worry may be reduced if politicians adjust their theories to

reality. A 50 per cent cut in strategic nuclear weapons would not by itself remove this dislocation: the numbers would still be too high for that. But it might force politicians and strategists to think more soberly about the irreducible function of nuclear weapons: to deter a nuclear attack by the other side. On the surface, the negotiations in Geneva will be extremely technical, discussions of hardware and numbers of warheads and cruise missiles, of mobility and verification and encryption, in which each side will try to prevent the other gaining a prospective advantage. But be-

low the surface, it will be an intensely political negotiation about the role of nuclear weapons in a long-standing adversarial relationship, and that negotiation will mainly be waged between different domestic constituencies. So the first question that is posed by Mr Gorbachev's offer of a 50 per cent cut in strategic nuclear weapons, and by his remarkable speech in Paris last week, is a political, not a technical, question: does he mean it? Is he really willing



Mr Mikhail Gorbachev, the Soviet leader, at a Press conference at the Elysee Palace in Paris last week

greatest suspicion, if not downright hostility. They will claim that since the Soviet Union rattled on detente in the 1970s by trouble-making in the Third World, there is no good reason to put any faith in Gorbachev's transparent attempt to revive the idea. Arms control failed in the 1970s, because American negotiators secured a lousy deal, because the Soviet Union went on building up its forces while the U.S. stood still, because the Soviet Union cheats, because, because, because...

In one sense, this suspicion is justified, at least in more moderate terms; in another, it is very dangerous if automatically given its head, because it amounts to a self-fulfilling prophecy. Yes, the Soviet Union played stupid and reckless games in the 1970s, just as it had done in earlier periods after World War II. But perhaps some people in Moscow have worked out just how stupid and reckless those games were, and what they produced: a six-year war in Afghanistan, President Ronald Reagan, the U.S. rearmament programme, and "Star Wars." It is not exactly a triumph for Soviet strategic planning.

Maybe the Soviet Union has not changed in any significant way, despite the promotion of a younger leader, and will always explore short-term manoeuvres for destabilising the rest of the world, regardless of the long-term consequences. But to make this the only conceivable hypothesis on the agenda is to box oneself into a position which has unacceptable consequences for the West. For it means that the only significant factor in the East-West relationship is an armed confrontation accompanied by a perpetual arms race; this is unacceptable, partly because the nuclear balance may not always remain stable.

Since it must be unacceptable for the West to restrict itself to such a fatalistic and ultimately dangerous policy posture, there is only one rational response to the new line laid out last week in Paris by Mikhail Gorbachev: extreme if cautious interest. Professional negotiators will, in any case, emphasise the caution; that is their job, and they are almost always over-cautious. Worst-case analysis is their favourite tool. But politicians should be bolder in putting Mr Gorbachev's ideas to the test.

One strategic analyst last week thought it was "a pity" that Mr Gorbachev went so public with his negotiating offer; better to have kept it confidential. This is a traditional bureaucratic view, but it may be wrong for two reasons. First, by being explicit about all the constructive moves he says he wants to make—confidence-building measures in Stockholm, troop cuts in Vienna, chemical weapons bans in Geneva, on top of the nuclear weapons talks—Mr Gorbachev may be under increased pressure to make good in these different negotiations. Second, if Moscow has made a new, more moderate assessment of its interests in the East-West relationship, we may have a text by which to measure its future behaviour. Dutch pacifists may be over-impressed by a small reduction in the number of Soviet SS 20 missiles, but if Mr Gorbachev does not live up to his new line, the rest of the world will soon draw its own sad conclusions.

In short, Mikhail Gorbachev has given some hostages to fortune. If it amounts to nothing, his public relations show will backfire, and play right into the hands of the American hawks. As so often, the immortal "Fats" Waller had some wise words to say on the subject: Millions of hearts have been broken, just because these words were spoken; You know the words that were spoken? I love ya, I love ya, I love ya. So be sure it's true, when you say "I love you!" It's a sin, a double sin to tell a lie. Now go on out there, and tell your lie—what is it?

Local authority borrowing

From Councillor T. Eckersley Sir—Borough Council votes on October 3 ("Why the City is so ready to lend to Liverpool") that "all the other rebel councils have set a legal rate." This statement is inaccurate. The Council of the Borough of Southwark resolved on May 30 on expenditure £9.5m in excess of estimated income. The rate, made at the same time, together with other sources of income, did not match estimated expenditure, contrary to the requirements of Section 2 General Rate Act 1967.

Most ratepayers are unable to form a proper view as to the legality of the rate since the information on the budget and rate, required by law to be provided to ratepayers, describes the deficit as "other financing options." No such options were selected on May 30 and none has been subsequently. Furthermore, by later growth decisions, Council has increased the deficit to £11.3m. (Councillor) Toby Eckersley, Town Hall, Peckham Road, S.E.5.

Valuable degrees

From the Director of Public Relations, Open University Sir—Probably unintentionally, Mrs Mallet (October 3) seems to debase the achievement of 70,000 graduates when she says "The OU is available to those who feel they must have a degree of some sort." Of some sort? The OU degree is fully recognised as equivalent to those of other Universities. Come to us, to its teaching—open for all to judge—would certainly be condemned by academics elsewhere. The reverse is true: much Open University course material is gladly used by UK and overseas Universities in their own teaching. As for employment prospects, a 1980 survey showed that 80 per cent of OU graduates claimed to have had job-related benefits from their study. The fact that many students start their courses without A-level qualifications, and they are given greater credit to their eventual success, not less. John C. Greenall, Walton Hall, Milton Keynes.

Sceptics will assume the bias in the Soviet opening position. But it takes two to tango

Changing the rates

From the Leader of the Council, City of Westminster

Sir—Robin Farley (October 2) points out that centralising the non-domestic rate would mean higher rate bills for many businesses, smaller towns and cities. Not only the small-town businessman would suffer. There would be an increase in the rate bill for all those businesses whose councils have been prudent enough to keep their rate levels down.

In many towns businesses are being progressively ruined by the level of rates collected by irresponsible local authorities. The answer to this problem is not to increase the rates collected in areas where councils have rated sensibly; it is to take action to reduce rates in the other areas.

This can be done by setting a national norm for commercial rates poundages. Councils rating below the norm could have reasonable flexibility to increase the commercial rate. Those above the norm would be required progressively to reduce the commercial rate to that norm.

Increasing the commercial rate in the cities would only drive the businesses out of the centre. The social problems of this would be great. Moreover, the limited connection which does now exist between local authorities and their business ratepayers would be destroyed. What local government needs is more accountability, not less—and the commercial ratepayer needs lower rates, not higher. (Councillor) Lady Porter, City Hall, Victoria Street, SW1

Accepted wisdom

From Mr C. Beattie, QC

Sir—There are two apparently accepted pieces of financial wisdom, one quite different from the other, both of which I am unable to understand. It is said that industry is acting very wrongly in giving its employees pay rises of 8 per cent when inflation stands at only 6 per cent. Industry may be acting foolishly in paying more than it can afford, but it is more than that. It does not track increases of 8 per cent, which will be reduced by tax and national insurance to about 6 per cent, do not bear criticism by reference to the rate of inflation.

Many people are urging the Government to take steps to reduce the value of the £ so as to help our exporters. If that is done, our importers will suffer, prices will rise in this country, and before long our exporters, bearing increased costs at home, will again ask for a reduction in the value of the £, and so on ad infinitum. I regret

Letters to the Editor

that the £ does not now stand at \$4 as it did for many years, but at least let us refrain from forcing it down below its present level of \$3.00. C. N. Beattie, 24 Old Buildings, Lincoln's Inn, WC2

Industrial training

From the Group Training Director, Anglia Regional Industrial Group Training Centre

Sir—It was with much consternation I read (September 30) that the Manpower Services Commission is to study one of the greatest problems about industrial training—How It Should Be Financed. Surely on the statute book is the 1964 Training Act which laid a heavy on industry. The seven statutory training boards that we have in 1985 should be given the opportunity to charge that levy to all companies in scope, with no exemptions whatsoever. This is the only way the employer is going to finance industrial training.

It really is amazing that we are going round the circle once again. The sad part about the article is that a report is not going to be made until the autumn of 1987, two years hence.

Is it going to be another two years before we start training again our skilled craftsmen and technicians? W.E.G. Woods, Gatehouse Close, Anglesbury, Bucks.

The FT-SE index

From the Chairman, FT-SE Index Steering Committee

Sir—There have been some critical comments on the FT-SE Index Futures Contract. These include assertions that it is inaccurate because it uses Topic prices which may not be dealing prices and that it does not track closely because it is weighted towards a few large stocks.

By inference, a broader index on reported trades would be favoured. Since trade reports do not exist, the point is academic until the new market comes into operation; but even if they did exist a wide-based trade report index would be a very poor indicator—prices for active stocks are more recent than for inactive stocks. The result would be worse than a quota-

tion based index such as we now have. Even with a quotation based index, however, the problem of timeliness is significant and it is for that reason that the FT-SE index is based on market leaders. The quality of the price data on the second line stocks would not support, for example, the FT-All Share Index as an intra day index.

In fact the divergence between the FT-SE and the All Share over periods up to, say, a year is small, and there is every reason to have confidence in the FT-SE as a fair indicator of the movement of the market.

When the new market comes in, the quality of price quotations will improve because they will be firm and not indicative. Market makers will be inclined to leave prices unchanged when they have not been tested and it could be that a broader based index would be feasible. I believe, however, that confidence in the FT-SE will continue to grow, provided that its structure and function is properly understood. J. A. Miller, Stock Exchange, EC2

Selling in English

From the Chairman, Anglo-German Association

Sir—I recently attended the 25th Young Kongwintzer Conference in Berlin where some 70 well educated young people from Germany and UK met to discuss problems common to both our countries. The proceedings were conducted almost entirely in English—spoken fluently by all the German participants, as less than a third of the British group had any knowledge of German at all.

Figures recently published indicate that of those industries engaged in exporting to our biggest European market, Germany, only less than a third speak any German and all too often their sales literature is printed in English only. At the recent national conference on German language teaching, Baron von Weichmar, the Ambassador of the Federal Republic of Germany, pointed out that there are over 100m Europeans who speak German and they can best be persuaded to "Buy British" if the advantages are explained to them in German. "Sell British but in German" said Baron von Weichmar. And how

Lombard

Decline of the steel barons

By Ian Rodger

THIS WEEK, the leaders of the world's major steel producers are meeting in London, but few people outside the industry will take much notice.

Partly, this is because the agenda of the annual conference of the International Iron and Steel Institute is, as usual, not exactly scintillating. One year, the assembled steel barons were treated to a speech on metals in space. This morning's session starts off with a lecture on "the world after the year 2000."

This is not to suggest that the IISI meetings are merely an excuse for the big steelmen and so deeply entrenched that they will take much notice. In 1982, Sydney in 1979. The IISI was set up in 1967 as a "non-profit, economic research organisation," and it regularly produces solid research on such worthy topics as indirect trade in steel and coal trade and transport. But like many such bodies, it was probably designed mainly to provide an annual opportunity for top steelmen to wheel and deal informally without having to worry about anti-trust lawyers and the like.

These conferences have often provided lots of opportunities for the steelmen to steal the headlines. It was at IISI conference in the 1970s that U.S. steelmakers first started to talk tough to their foreign counterparts on the problem of imports. And it was at the IISI conference in Madrid in 1980 that Mr Ian MacGregor, then the newly appointed chairman of the British Steel Corporation, threatened to start a price war in Europe. "You have not seen anything yet," he warned. "There will be mayhem." And there was.

The Tokyo conference in 1982 was the scene of frantic and futile negotiations between the U.S. and European steel executives on a bilateral trade deal, with each side keeping in touch, when time zones permitted, with Brussels and Washington.

It was all good stuff while it lasted, but it seems to have come to an end, at least for a while. The state of the world's steel industry is such that there is little likelihood of any great rows or dealmaking at this year's conference in London or, for that matter, for the foreseeable future. For the truth is that this once mighty industry has been largely stripped of its power.

There was a time, in 1962, when a chairman of the United States Steel Corporation, Roger Blough, could even take on a U.S. President, John F. Kennedy, over steel prices, and the world trembled. And it was not so long ago that our makers and other big users would wine and dine their steel suppliers just to try and get enough tonnage to keep going. But today, world steel overcapacity is so great and so deeply entrenched that buyers everywhere can sit back and play one steelman off against another with impunity.

It was also not so long ago that international trade in steel was a minor and quietly managed part of the business. The U.S. topped up its needs by importing from Canada, and left the Europeans to supply their former colonies and other developing countries. In 1950, only 20m tonnes of steel were traded internationally. Now, more than 140m tonnes a year move around the world, and there are dozens of new and aggressive producers baring for bigger shares in a pretty flat market.

The result has been chaos in international markets, forcing governments everywhere to intervene with various types of production and import controls on steel. Last year, the U.S. government, for example, decided that total steel imports should be restricted to 18.5 per cent of the market, and proceeded to negotiate "voluntary" arrangements with most steel producing countries. This year, the two big events on the steel industry agenda are the renegotiation of the 1982 U.S.-EEC trade deal and the renewal of the internal EEC restructuring programme.

But in both cases, the discussions are mainly between politicians and bureaucrats. The once mighty steel barons are mainly spectators, waiting to be told under what conditions they must operate. They still have lots to do, but at a much more mundane level, struggling like any other business to cut costs and make better products, as well as finding out what may happen after the year 2000.

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FINANCIAL TIMES

Monday October 7 1985

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Terry Byland
on Wall Street

Searching for fitter healthcare

LAST WEEK'S bloodbath in Wall Street's healthcare stocks was followed by a thunderous slamming of stable doors as some favourite horses galloped away out of sight. There can be no gainsaying the bearish implications of America's Hospital Corporation of America's (HCA) disclosures. But it is surprising that the major institutions were caught so obviously on the wrong foot.

The healthcare sector has been a favourite of institutional funds for several years, in view of its growth record of 10 per cent to 15 per cent annually, its noted appetite for credit, and the ready liquidity and tradeability of the shares.

When the HCA statement on its strategy for the next half decade hit the NYSE mid-week, the institutions sold healthcare stocks with a vengeance, wiping about \$20 off the sector's market capitalisation within a few hours.

After more than 15 years of exemplary growth, of never missing a forecast or disappointing its stockholders, Nashville-based HCA was saying that "the game is over," said Mr Todd Richter of Morgan Stanley.

Not over in a terminal sense, of course. There is still plenty of growth in the U.S. healthcare industry, and probably more on the international front. But over in the sense of steady 15 per cent annual growth on the back of debt-financed acquisitions.

Wall Street's shock was all the greater because several brokerage houses were still strongly recommending the sector. As recently as July, HCA said, in the aftermath of the failed bid for American Hospital Supply, that its three year \$2.5bn expansion plan was "intact". No sign of trauma there.

Now, HCA, which operates the largest hospital chain in the U.S. with about 450 facilities, warns that profits will show very little growth (4 per cent, perhaps) this year and will be flat in 1986. Equally significantly, it is halving its capital investment programme to around \$700m next year.

Until the bomb dropped, Wall Street had been confidently looking for earnings gains of around 10 per cent this year and perhaps 28 per cent in 1986.

HCA blames the sudden reversal on its discovery, just before its statement, that hospital admission rates were continuing to fall. Its own rates had fallen 23 per cent over the two years since the Medicare rules were changed, or slightly more than the fall in the national average.

The Medicare change, which two years ago replaced cost-based hospital federal payments with a fixed fee, is old hat on Wall Street. Analysts should, however, have seen the second blow, which has come from the vigorous attack on the heavy costs of corporate medical schemes.

The HCA news means a re-appraisal of other healthcare stocks, most of which had been marked by Wall Street for further significant increases in earnings in the next two years.

American Medical International was booked for a 34 per cent gain this year, and a further 18 per cent next year. Humana for 12 per cent this time, and 18 per cent in 1986 and Charter Medical for 20 per cent in 1985 and 14 per cent next time.

Wall Street is already rejudging its views of these companies in the light of HCA's bombshell.

With conventional hospital admissions now a potential source of trouble, the search is for companies successfully positioning themselves in psychiatric treatment, in outpatient facilities, in new-care schemes or tightly managed communal clinics.

Humana, number three in the industry, is likely to reap the benefits of its early moves into freestanding clinics and into health insurance policies via its Medfirst and Care Plus operations. Both continue in loss, but both also offer a way forward if hospital management facilities are no longer growth certainties.

HMC is applauded for "making the right steps," by stepping up its health insurance plans, with an investment of \$20m intended next year. But it cannot escape its position as the largest operator of hospital facilities.

Charter Medical has established itself strongly in the psychiatric field - which is likely to become even more competitive as other companies move in. About one quarter of earnings come from Medicare patients, another weak spot.

The market's re-rating moves have already shaken out the earnings ratios on the sector stock prices. HCA, accustomed to trading at around the S & P 500 earnings ratio of 11.5, is now at about 70 per cent of it. But Humana is still trading a modest premium to the S & P 500 earnings ratio.

FORMER ARAB MONETARY FUND CHIEF ACCUSED OF EMBEZZLEMENT

Arabian loans group lost \$70m

BY CLIVE WOLMAN IN LONDON

MR JAWAD HASHIM, the former president of the Arab Monetary Fund, has responded to accusations of embezzlement and of responsibility for losses of \$70m from the AMF by saying that the losses were the result of precious metals dealings, which wiped out more than a quarter of the fund's capital.

A confidential official report prepared for an Abu Dhabi court accused Mr Hashim, who has refused to attend the hearings, of forging letters from contributing Arab states to the fund and of booking foreign currency dealing profits to himself.

The case, of which only sketchy details have so far been published, has drastically curtailed the activities of the \$800m fund, whose headquarters are in Abu Dhabi and harmed its credibility among the oil-rich Arab states that are its chief contributors.

But Mr Hashim, an Iraqi now living in London, claimed in an interview on Friday that speculation by AMF officials in gold and silver in 1979 was responsible for the loss of \$70m at a time when the fund's total capital was only \$250m.

He admitted that he decided against immediate disclosure of the losses in the AMF's accounts. "How was I going to explain these huge losses without causing immense political damage to the fund when it was still only two years old?" he said. "I had two alternatives to go to the board, dismiss those responsible and make a big fuss or to settle the matter in a quiet, dignified way."

He said that the charges brought against him and four of his former

Iraqi colleagues at the AMF in an Abu Dhabi court hearing held in camera were the result of a "political plot" and a failure to understand the workings of the AMF. He would not attend the court hearings, he said, as he has no confidence in its impartiality or competence and has claimed diplomatic immunity. But he has offered to go to an international arbitration tribunal.

"Those petro-primitives in Abu Dhabi have a vendetta against me and against Iraq," Mr Hashim said.

He added that he has not been allowed to see the confidential report which was prepared for the court by officials from the Audit Bureau and the central bank of the United Arab Emirates in Abu Dhabi. The 100-page report, which follows up an earlier report for the AMF by accountants Ernst and Whinney, contains two main allegations against Mr Hashim and other ex-AMF officials.

The first relates to the losses that were sent to the AMF from member-states to confirm the date of payment of their contributions and their size, often tens of millions of dollars. The report alleges that Mr Hashim and his associates would alter the dates of payment on the telegrams by moving them forward by several days. In the interim period, the money was paid into a separate account on which they earned the interest, the report alleges.

Mr Hashim denied on Friday that any secret accounts were used. The accusation, he said, probably resulted from a failure to appreciate the technical difficulties of transferring money from contributing nations to the AMF, usually via the International Monetary Fund, on which the AMF is modelled. There was always a two-day delay before instructions to transfer the money to the AMF were carried out, he said, and then there might be a further three-day delay because of the different time zones in the Arab world and the West.

He added that currency conversions in a period of rapidly fluctuating exchange rates may also have been responsible for discrepancies in the interest earned on the contributions from Arab states. The AMF uses an artificial currency, the Arab accounting dinar, which is linked to the IMF's Special Drawing Rights, which, in turn, are tied to a basket of non-Arab currencies.

The second accusation in the confidential court report is that Mr Hashim and his associates dealt in foreign currencies and precious metals, usually booking the profits to private accounts and the losses to the AMF. The report accuses several European banks of "complexity" in the dealings.

Mr Hashim said that the accusation is a willful misinterpretation of what happened. The investment department, he said, which was authorised to deal in precious metals, lost \$70m in 1979 when gold and silver prices collapsed after they had bought many forward or futures contracts. But this event, he said, was not taken into account in the court case against him.

He decided that the loss would not have to be disclosed in the ac-

counts if contracts were rolled over and financed by loans which would not appear on the balance sheet. Instead, the precious metal losses were realised over a period of three accounting years and in the accounts they were partially offset by foreign currency dealing profits. By these methods the losses were reduced by half, Mr Hashim said he was advised that this was a legitimate, albeit unethical, accounting procedure, as the AMF generally recorded its securities at cost price for balance sheet purposes.

As a result of the losses, Mr Hashim said he removed some of the responsibilities from the head of the investment department and took advice from World Bank officials. "But did not the scale of the losses, as described by him, reveal grave defects in his management controls?"

He replied: "I had no experience of banking before the AMF and I was not informed about this exposure. It is not the job of a president to be involved in day-to-day dealing. Nearly all Arab institutions lost money by investing in gold at that time."

Mr Hashim, who was the Iraqi Planning Minister and then personal adviser to Iraqi President Saddam Hussein before becoming the first AMF president from 1977 to 1982, said he was still on friendly terms with the Iraqi regime, which has been the largest borrower of AMF funds. "But it is always in the back of my mind that these primitive people in the Gulf may seek vengeance against me," he said.

Mr James Baker

Waiting for Godot in Seoul

Continued from Page 1

What nobody disputed, except perhaps Mr Clausen, was that Mr Baker was bringing an air of hope to a meeting long haunted under the Reagan Administration to American indifference. This sentiment was particularly prevalent among the representatives of the developing countries, although certain commercial bankers, whose new lending to the Third World has been conspicuous by its absence, looked a bit worried.

The British presence was, of course, noticeable for a couple of heavyweight abstainers. Mr Nigel Lawson, the Chancellor of the Exchequer, had let it be known months ago that he would not come, officially pleading the coincidence of the UK Conservative Party conference but actually disgracing a disaster for these sorts of calculations.

The other apparent no-show was Mr Robert Maxwell. The proprietor of Britain's Daily Mirror newspaper had indeed booked a room and planned to descend on Seoul to give the finance ministers of the world the benefit of his advice, but at the last moment, cancelled his trip.

The leadership will, however, come under pressure to take more action to cut unemployment if the Tories are to win the next election.

Mr Tebbit was deliberately cautious yesterday in his comments about the economy. He declined to forecast that unemployment would be lower by the next general election. In line with recent comments by Lord Young, he questioned whether the published unemployment figures might include a number of young people, who could find some kind of work if they really wanted to.

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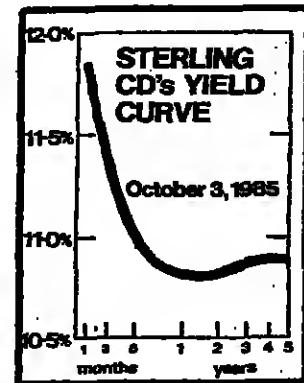
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THE LEX COLUMN

No queues at the paper shop



Like motherhood, the sterling corporate debt market is universally considered to be a good thing. It counts among its enthusiasts the Treasury, the Bank of England, the Association of Corporate Treasurers and politicians of every persuasion. Yet, unlike motherhood, it has never really caught on.

The Bank's effort to revitalise the long-term fixed interest market in the early 1980's was rewarded with only modest success. The Government Broker obligingly left the long end of the market free for the corporate sector but treasurers were reluctant to commit themselves to a fixed funding cost for a period of up to 30 years.

Tactically conceding failure in the long market, the Government has recently turned its attention to shorter maturities in the hope that treasurers would be emboldened to raise fixed-rate finance for between one and five years. The 1985 budget swept away the most conspicuous obstacle to the sterling note market - a provision in the Banking Act which seemed to confine regular issuance of short paper to licensed deposit takers and banks. Yet, six months later, the market is as dead as ever.

Vigorous lobbying has so far produced no softening of the Revenue line. To exempt corporate issuers from tax sourcing would leave the Government Broker at a competitive disadvantage, while to exempt all short-term debt would mean conceding an important principle (and almost certainly depriving the Treasury of tax revenue).

The administrative obstacles to the corporate note market are less burdensome. The insistence that all issuing companies should be listed on the Stock Exchange or the USM still leaves a fair list of potential candidates, while the Bank and the Stock Exchange have gone a long way since the budget announcement to relieve the problem of documentation.

For the note market to succeed it must be possible for companies to issue small amounts at short notice. While it will be necessary for issuers to lodge full listing particulars at the outset, subsequent tranches should - as in the U.S. - require only a limited updating of the prospectus.

The Bank of England is understood not to be greatly impressed by arguments about tax and documentation. The biggest hindrance, in its view, is the level of interest rates and the corporate sector's traditional preference for floating rate funds. But there is no doubting its general commitment to the note market. To set against any worries about investor protection and the effect of large-scale disintermediation on the quality of bank loans is the prospect of a lasting improvement in monetary conditions.

By containing monetary growth through consistent overfunding of the PSBR, the Bank has accumu-

lated bill holdings of around £10bn, which effectively represent direct lending to industry. To the extent that corporate notes replaced bank debt and were sold to the non-bank private sector, the Bank would be able to run down its bill mountain. If, as seems likely, corporate notes proved less liquid instruments than bank deposits, the market would have the effect of slowing down the underlying rate of monetary growth.

It may be that a reduction in short-term sterling interest rates or a stern directive from the Treasury to the Revenue will set the note market in motion. But, for the moment, it seems more likely that corporate treasurers will meet their fixed-rate requirements - such as they are - through swaps and such like.

Having tried and tried again to promote a corporate debt market the Government may by now be wary of a third offensive. But the most promising avenue has not yet been tried at all. The development of a sterling commercial paper market would, in theory, satisfy everyone's requirements.

The Revenue should have no objection in principle to the payment of gross interest on commercial paper of a year or less. The Bank would still see a benign monetary effect - though less marked than in the case of notes - and the corporate treasurer should be pleased twice over.

The CP market would enable a company to invest surplus liquidity outside the banking system at a time when blue chip companies look a sadder credit risk than one or two banks we could not mention. If U.S. experience is anything to go by, the same company could also raise short-term funds at a rate competitive with bank finance and with the minimum of fuss. As long as the sterling yield curve is pointing decisively downwards - as it is at present - the company might also reduce its cost of funds by borrowing fixed-rate for six months. And even the clearing banks - the only obvious losers - would be compensated by providing back-up credit to CP programmes.

The introduction of a CP market would require changes to the Banking Act and, in the aftermath of the JMB collapse, the Bank may feel that it has more pressing legislative measures to pursue. It would also need a regulatory framework of its own and independent credit rating agencies to measure risk. But if the note market fails to ignite, commercial paper may be the only answer.

Oil stocks at lowest pre-winter levels since 1976 IEA says

BY DOMINIC LAWSON IN LONDON

THE WEST is entering the northern hemisphere winter with oil stocks at the lowest pre-winter level since 1976, according to the International Energy Agency monthly oil market report, published today.

The reason is a wave of destocking by oil companies, with only 318m tons of oil held by OECD companies on October 1. This is almost 10 per cent down on the year-ago levels and represents the lowest figures for pre-winter company stocks since the IEA began its records in 1974.

The company stocks equate to 73 days of forward consumption, compared with the lowest recorded pre-winter level of 71 days in 1976, before the oil price shock in 1979 caused the world to take a less relaxed view of the need for stocks.

The IEA report said that its revised figures showed there was a drawdown of 500,000 barrels of oil a

day from oil stocks in the OECD in the third quarter of 1985.

The low level of stocks is the main reason for the sharp rises in oil spot prices over the past two weeks. Demand was especially strong for immediate deliveries. In the two weeks to October 3 the spot price of Brent, the main North Sea crude, surged from \$27.35 a barrel to a peak of \$29.40 before the inconclusive Opec ministerial meeting last week.

The accelerating stock drawdown has confounded Opec, which hopes of increasing their output quotas and the IEA report shows Opec crude oil production down to only 14.9mb/d in the third quarter, compared with its official ceiling of 18mb/d. The strain was primarily borne by Saudi Arabia and Kuwait. In the third quarter the untrained North Sea oil nations were, for the first time, producing more than Saudi Arabia and Kuwait combined, according to the IEA figures.

It was with this trend in mind that Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, last month called on non-Opec producers to cut their production or risk a price war.

OECD oil consumption in the second quarter was 3.5 per cent below the level in the same period last year, while in the third quarter the year-on-year consumption decline slowed to about 2 per cent. Nearly half the decline in European oil consumption in the second and third quarters of 1985 can be explained by the ending of the UK pits strike, the report said.

But even if the unusual fuel oil demand during the miners strike is deducted, underlying fuel oil consumption in the OECD as a whole in the year to June 1985 was 12 per cent down on the comparable period. This shows the extent to which fuel oil is continuing to be displaced by alternative energy sources, particularly nuclear.

Thatcher will try to dispel doubts over long-term policy

Continued from Page 1

gutter politics. This is likely to be the general view of Tory MPs but there are few in the back benches who reveal frank and critical comments about Mrs Thatcher and her Cabinet.

In the conference itself, the leadership will be concerned to answer internal party worries. In particular, Mr Nigel Lawson, the Chancellor of the Exchequer, has been devoting a large amount of time to his 20-minute speech on Wednesday afternoon following a much-criticised performance last year. This is why he decided not to go to the IMF-World Bank annual meeting in Seoul, which is normally one of the major dates in the Chancellor's calendar.

No major policy statements are expected since the Cabinet is in the

middle of its annual review of public spending plans and of difficult decisions on rates (local property taxes) reform and social security. However, all ministers like to be able to give some indication of future thinking to attract conference and media attention.

There will be considerable interest to see how Mr Tebbit's certain ovation is capped by other likely eventual leadership contenders - Mr Peter Walker, the Energy Secretary, and Mr Michael Heseltine, the Defence Secretary. Senior Tories were yesterday not taking seriously the suggestion by Mr George Gerdner, the Tory MP for Reigate, of a "back-stabbing" conspiracy by landowner grandees against Mrs Thatcher's leadership.

The conference will also see the emergence of Lord Young, the new

Employment Secretary, onto the centre stage, both in replying to the employment debate and in giving the major Conservative Political Centre lecture outlining his ideas on job creation.

The leadership will, however, come under pressure to take more action to cut unemployment if the Tories are to win the next election.

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World Weather

Japan	22	72	Indonesia	21	70
Thailand	27	81	Philippines	23	73
Malaysia	27	81	Malaysia	23	73
Singapore	27	81	Brunei	23	73
Philippines	27	81	Thailand	23	73
Malaysia	27	81	Indonesia	23	73
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FINANCIAL TIMES SURVEY

UK Banking

The need for the Bank of England to rescue Johnson Matthey Bankers has sparked off sweeping changes in the method of UK banking supervision. Meanwhile, there is greater confidence among the big clearers as they shape up to the City Revolution and competition for business from building societies.

In better shape to ring the changes

By David Lascelles, Banking Correspondent

IT WAS exactly one year and one week ago that the Bank of England announced to an astonished City that it had been forced to rescue Johnson Matthey Bankers, to spare the banking system from disaster and preserve London's good name as a financial centre.

It was not the sort of news that goes down well on a Monday morning, and the passage of time has not made it any sweeter. JMB has guaranteed itself a place in the annals of British banking, not merely for managing to lose half its £500m loan book, (the police are also investigating the possibility of fraud). It also dealt a damaging blow to the reputation of the Bank of England—a blow from which the Bank has yet to recover—and set off sweeping changes in the methods of UK banking supervision.

Politically, the affair was also an acute embarrassment to the Government, since the JMB-governing bank was seen as benefiting from a £100m of loans

of England money at a time when countless small UK companies were on the brink of closure.

The relationship between the Treasury and the Bank still bears the bruises, and the more scandalous aspects of JMB are bound to affect public thinking about the way the City should be regulated.

The repercussions of JMB might seem out of all proportion to its size. It was, after all, an obscure bank which specialised in bullion trading, and it should, arguably, have been allowed to suffer the fate it looks (the police are also investigating the possibility of fraud). It also dealt a damaging blow to the reputation of the Bank of England—a blow from which the Bank has yet to recover—and set off sweeping changes in the methods of UK banking supervision.

Politically, the affair was also an acute embarrassment to the Government, since the JMB-governing bank was seen as benefiting from a £100m of loans

great changes. They were under intense competitive pressure from the building societies who were luring away precious deposits and they were grappling with the enormous challenges—and risks—posed by the City Revolution.

To a banking supervisor, it was not the moment for a bank crash. A year later, UK banking is still in the midst of historic changes, but arguably in better shape to deal with them.

The big clearing banks which are the pillars of the system have strengthened the foundation of their balance sheets with huge injections of new capital raised on the UK equity market and the Euromarkets. This has, finally, corrected the severe erosion of their capital in the late 1970s and early 1980s caused by the dash for growth that affected all banks.

They have also continued to make large provisions against loan losses, which should provide a useful cushion against future shocks.

None too soon, they have begun to mount a counter-attack against their new competitors which has led to a sharp revival of their fortunes on the domestic market. Thanks to a combination of aggressive marketing and more attractive pricing they appear to have at least halted the outflow of deposits to the building societies if not, actually, reversed it in some cases.

This turnaround should help their funding. But it also marks an 'uncharacteristically' determined effort by the normally sluggish clearers to fight back. This could be a sign of new attitudes in their executive suites.

Certainly, there is an air of greater confidence about the big banks, which is just as well since they will need strong nerves in the next year or two as the City Revolution gets under way.

All the clearing banks and the larger merchant banks are now deeply involved in putting

together securities operations in anticipation of the opening up of the stock market next year and the Big Bang when deregulation of the UK securities business occurs.

Although the Revolution is essentially about reform of the Stock Exchange, the biggest players in it are not stock brokers but the banks, which are putting together what are likely to be Britain's leading securities broker-dealers for the next several decades, and investing the greatest sums of capital.

NetWest and Barclays, for example, are each developing investment banking operations that will be capitalised at over £200m and will be active in all areas of the markets from stock broking and jobbing to corporate finance and investment management. Merchant banks like S. G. Warburg and Kleinworts are assembling similar groups, though on a slightly smaller scale.

Whether they succeed will, most people believe, depend

largely on their ability to blend different skills, and then live with the very unbanklike volatility that these operations are bound to experience. Many of them are certain to sustain heavy losses, and then it will become a matter of accepting the loss of face, and pulling out.

One may well ask why banks are assuming these large costs and risks. The most frequent answer is that they must follow the trend towards securitisation of lending, and be able to make capital market deals just as easily as loans. However, sceptics have noted the audaciousness of the City Revolution, and the pressure from Government and the Bank of England who want to see British-owned groups competing with the large U.S. investment banks, and securing London's place as the leading financial centre in the European time zone.

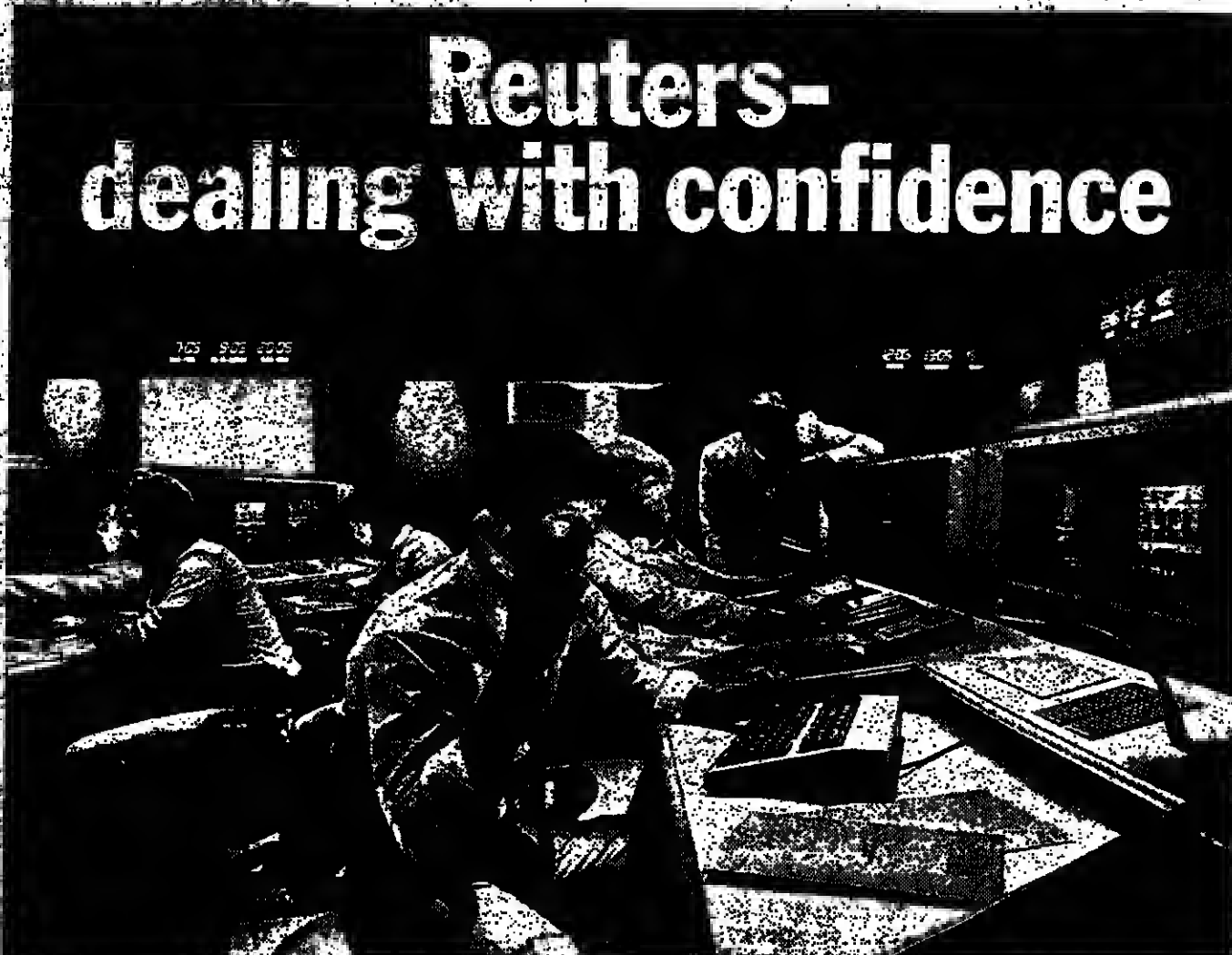
But if the Bank could be criticised for trying to hurry things along a bit in the early stages, it has adopted a much more cautious line recently. In a notable speech last month the

(shortly to depart) Deputy Governor, Mr Christopher McMahon, spoke at length of the risks in modern-day banking: the dangers of ill-managed diversification, the instability caused by the poaching of banking staff with lures of high salaries, and the perils in many of the securities-based innovations now adopted by banks.

He spoke on the same day that the Governor, Mr Robin Leigh-Pemberton, dispatched a letter to banks warning them about their growing off balance sheet business (standby credits, commitments to underwrite Euronote issues, swaps etc). If banking is a story of successive crises, the Bank may be doing the banks a favour by pinpointing in plenty of time the likely successor to the property crash of the 1970s and the LDC (Less Developed Countries) debt crisis of the early 1980s.

However, the powers of moral suasion traditionally held by the

CONTINUED ON NEXT PAGE



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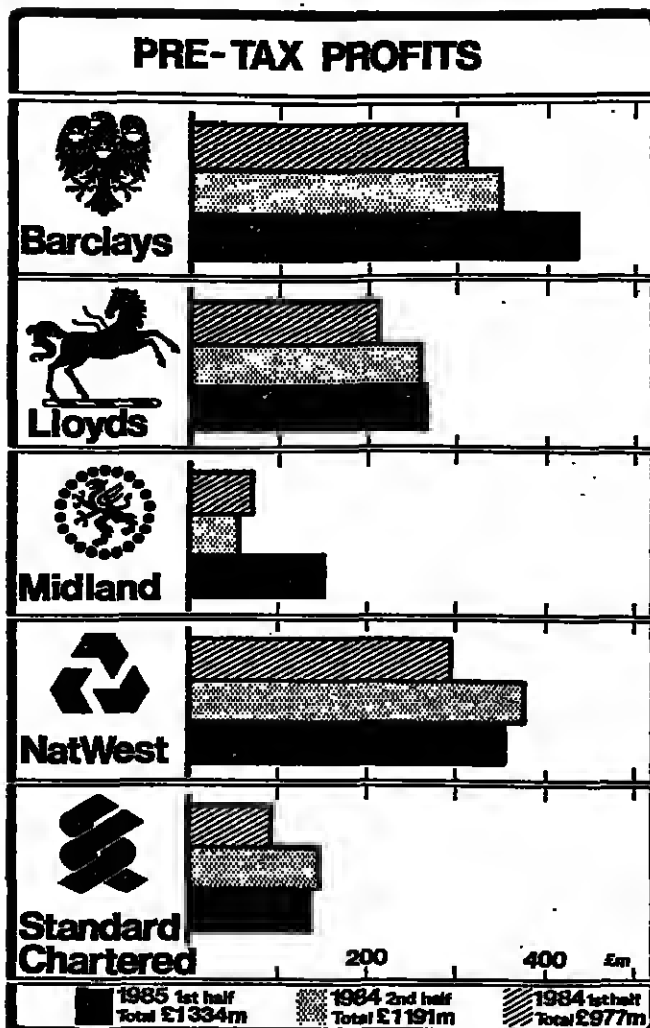
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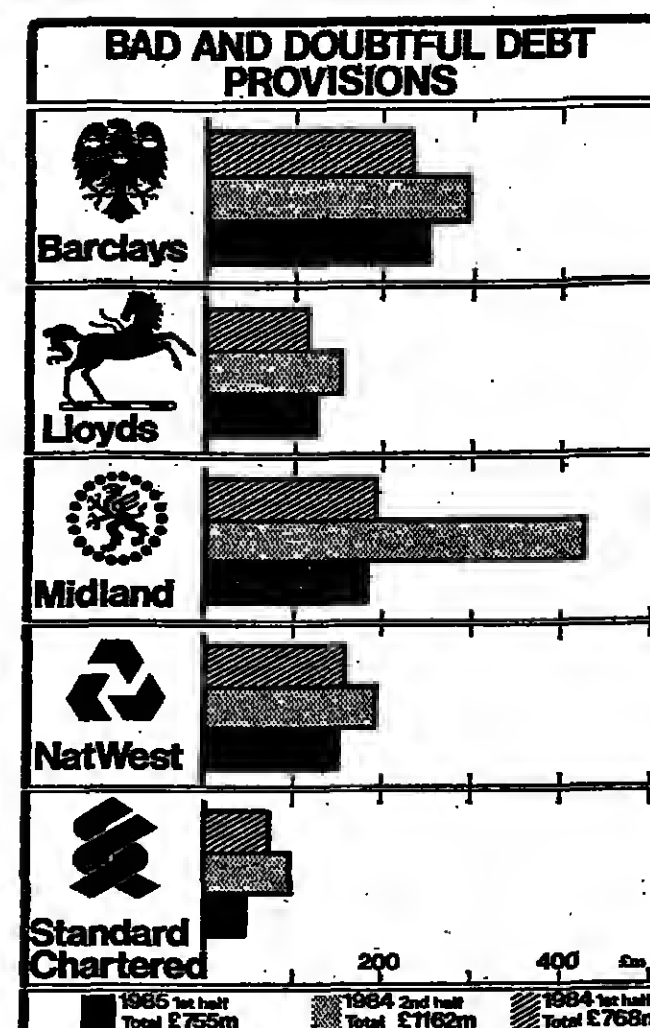
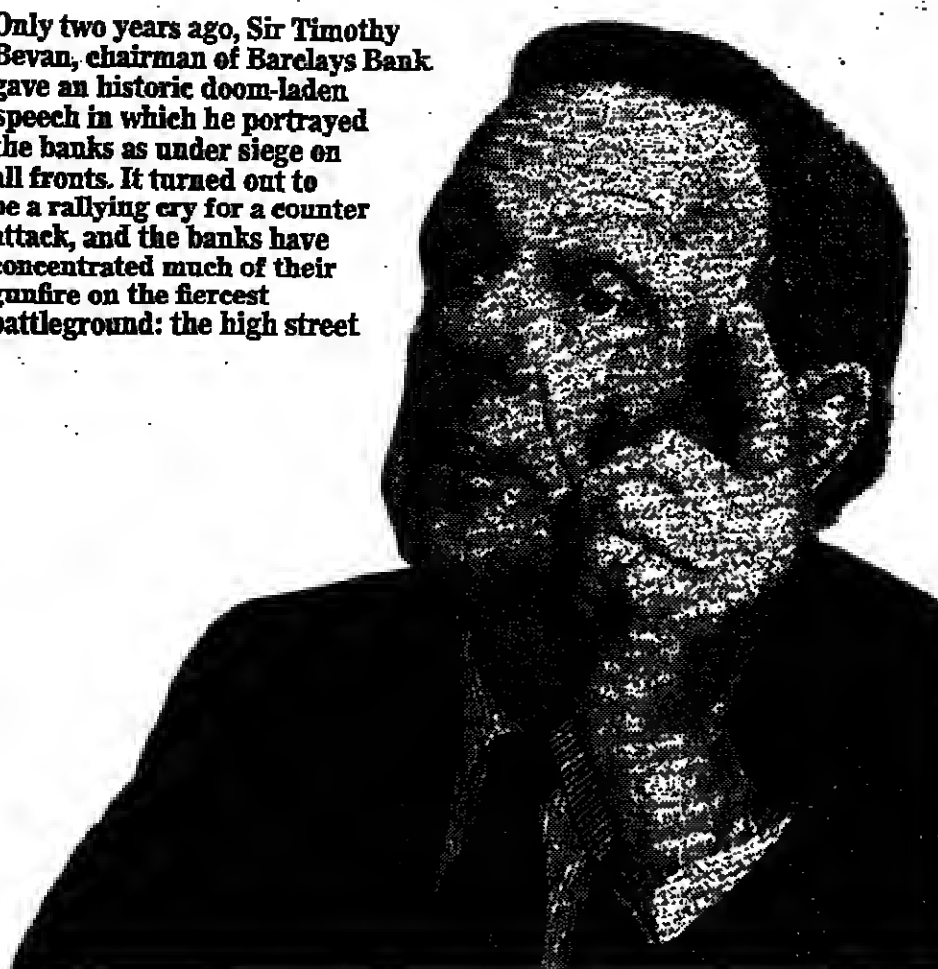
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UK BANKING 2



Only two years ago, Sir Timothy Bevan, chairman of Barclays Bank gave an historic doom-laden speech in which he portrayed the banks as under siege on all fronts. It turned out to be a rallying cry for a counter attack, and the banks have concentrated much of their gunfire on the fiercest battleground: the high street



Profile: TSB

Set to take power

A BANK flotation is a rare event in the UK, especially one worth £1bn. The forthcoming public sale of the Trustee Savings Bank, scheduled for February, has already stirred up its share of political controversy and investor interest.

Although the TSB sale has been ordered by the Government, it differs from other public sector sell-offs in that the state does not own it. Nobody does. So the proceeds will stay with the TSB itself providing it with a capital boost that will completely transform this largely regional, retail bank into one of the most powerful institutions on the UK financial scene.

And that is precisely the intention of the Government, which wants to inject more competition into the banking business. However, the sale has run into strong opposition in Scotland, where the TSB originated in the early 19th century.

The Scots lobby has had to be pacified with promises that the TSB's Scottish business will not be run down, and that the group's annual meeting will be held in Edinburgh. This has not satisfied the Scottish nationalists who are still trying to block the sale, though their chances are not rated very highly.

Under its chairman, Sir John Read, the TSB has been working hard to make itself presentable for the flotation, which is being handled by Lazard Brothers, the merchant bank which managed the recent sale of Britoil and Devereux, the advertising and public relations firm which promoted the British Telecom flotation.

A special share information office has been set up in the City to handle what the TSB hopes will be a flood of inquiries from potential investors.

Experienced bankers have been hired to beef up management, which was thought to be a bit parochially minded, and the TSB's image has been polished with a barrage of flashy advertising on TV and the billboards.

The TSB also wants to attract a large number of small shareholders (customers and staff will get priority) in order to preserve its essentially grass roots character.

The TSB has, proportionately, by far the largest retail business of any bank in the UK, with 6m personal customers and 13m accounts. But the group has also expanded into insurance, instalment credit, credit cards and motor rental, giving it a broad business spread. On the banking front, the TSB hopes to build up a more even spread by expanding its branch network in the south where it is weakest, and gaining more up-market customers, and company business.

The major question, though, is how it will deploy the £1bn it is expected to raise next February? Sir John cautiously deflects the constant questioning he gets about this. But he has said the money will go both to developing the TSB's existing business and possibly acquiring new businesses that have some association with what the TSB does already.

There will clearly be no adventurous sallies into new pastures. But the TSB is in an unusually strong position to become a financial supermarket for the man-in-the-street. If that much-debated concept appeals to it, which it appears to.

David Lascelles

Determined fightback shows signs of success

Clearing Banks

DAVID LASCELLES

BRITAIN'S big clearing banks frequently complain about being "put upon" by the unsympathetic world: taxation, unfair competition, over-regulation. But, for once, things seem to be going their way, partly because of a new determination to be masters of their fate.

The signs are all there. Since the middle of last year, which probably marked the nadir in the clearing's fortunes, profits have been rising, had debts are on the wane, balance sheets have had a big boost of fresh capital, and the steady haemorrhage of business to those eager competitors, the building societies, seems to have been staunch.

Some may say the change has come none too soon, though it has been helped by the much healthier state of the UK

economy. Only two years ago, Sir Timothy Bevan, the chairman of Barclays Bank, the biggest clearer, gave a historic doom-laden speech in which he portrayed the banks as under siege on all fronts. It turned out to be the rallying cry for the counter-attack.

The banks have concentrated much of their gunfire on the fiercest battleground: the high street. Using a combination of high interest accounts, more flexible opening hours and tariffs, they have finally begun to hold their ground in the savings and retail market. Behind the scenes they have also attacked their own costs and pursued a steady though discreet policy of trimming their sprawling branch networks.

In balance sheet terms, the banks have sought to reduce their sensitivity to changes in interest rates through the so-called "endowment effect". Although their endowment of "free" balances from current accounts has been dwindling, it is still considerable, accounting for about 30 per cent of their sterling deposits.

While this endowment brings extra profits when interest rates rise, it similarly cuts into earnings when they fall. By balancing these liabilities with more fixed rate loans and mortgages, this volatility has been reduced, and should enable the banks to cope much better with fluctuating money costs.

But that has not been the only balance sheet worry. Pressure from the Bank of England to increase their capital, presented the banks with something of a dilemma since there was a limit to how much they could raise on the equity markets.

Although Barclays made a £507m rights issue in April—one of the largest ever in the UK—the others (and Barclays too) took advantage of a novel idea pioneered by Lloyds Bank: the perpetual floating rate note.

Although this is debt, rather than equity capital, the Bank permitted it to be counted as primary capital because it never has to be repaid. It carries interest which can be interrupted, and becomes preference stock if a bank gets

into trouble. Altogether, the banks have raised more than £2bn in this form, and boosted their capital ratios to levels not seen since the 1970s.

Another sign of changing times is the opening up of the clearing's basic business—clearing—to more competition. This summer, the Committee of London Clearing Bankers disappeared after 160 years, to be replaced by the Committee of London and Scottish Bankers, which includes the Big Four, plus the two Scottish banks (Bank of Scotland and the newly merged Royal Bank of Scotland and Williams & Glyn's) and Standard Chartered Bank, which has taken advantage of the restructuring of the clearing system proposed by last year's Child Report to become a clearing bank.

The conspicuous absentee is Citibank of New York, the first foreign bank to be admitted to the Clearing House. But the Committee is restricted to UK-owned banks. However, Citibank is expected to bid aggressively for UK clearing business

—indeed, for a broad slice of the UK banking market as a whole.

By the end of this year the new system, which will allow any bank using clearing to have a say in its management, should be launched.

If the clearing banks have stopped the rot, the question now facing them is how to map their future at a time when all their markets are changing, with the trend towards securities services and financial supermarkets most marked.

There seems little question that their focus will be mainly on the domestic market—a change from the 1970s, when overseas expansion was all the rage. This has partly to do with the risks of international banking but also the opportunities presented by deregulation in the UK where the clearing, for all their past failings, are still dominant.

All of them have taken advantage of the City Revolution to get involved in the securities markets, though to varying degrees. NatWest and

Barclays are hammering together huge "investment banks" combining stockbrokers, jobbers, investment managers and merchant bankers. (Although the banks like to stress their size, they represent to some extent the concentration of business that already exists within these banking groups).

Midlands, Lloyds and Standard Chartered are taking a more low key approach, preferring to acquire more modest operations or develop their own internally—cautious line dictated by the risks that undoubtedly exist in the City Revolution.

Their aims are the same, though: to become major players in the international capital markets and, eventually, broaden the range of their retail services to include investment advice, management and execution for their retail customers.

Nobody can honestly say at this stage whether these strategies will succeed. The urge for banks to follow the shift from finance through lending to

finance through securities is strong though, and so is the competitive pressure.

Securities would add yet another facet to the clearing's range of services, which now include insurance broking and underwriting, estate agency, and many others in addition to standard banking services. Whether this means they should now go all out to become financial supermarkets is a moot point, though.

The theory of a one-stop shop is appealing, especially if, as seems likely, banks will start merging with building societies when these become publicly quoted companies in the next few years.

Mr Chris Clarke, of SRI International, the management consultancy firm which has been studying UK banking trends, doubts that consumers want financial supermarkets, and believes that banks may not be suited to managing comprehensive financial services because of their habits and corporate culture.

In much better shape

CONTINUED FROM PAGE 1

Bank have dwindled since JMB—for which it has accepted part of the blame. A key question hanging over the banking industry is how successfully the Bank can re-establish its authority over the UK banks—and there are now more than 600 of them in London.

The departure of Mr McMahon, a highly regarded figure, is a major loss for the Bank. Nevertheless, it has taken the unusual step of replacing him, not with one of its own top officials but with the semi-retired Mr George Blunden, 62, an experienced former Bank official best

remembered for sorting out the extraordinary banking crisis in the mid-1970s. The choice reflects the heightened emphasis given to supervision in the wake of JMB.

At the same time, Mr Leigh-Pemberton has remodelled the Bank's supervisory staff to enable it to cover the City Revolution more effectively.

These changes have been broadly welcomed as an indication that the Bank is moving with the times, even though they will mark a further erosion of the largely informal—and popular—methods with which the Bank has traditionally kept UK banks in order.

As such they mark something of a watershed in UK supervision, and many bankers regret the changes. But the growing complexity of banking



Mr Robin Leigh-Pemberton, Governor of the Bank of England

along with the risks exposed by the JMB affair and created by the City Revolution probably make them inevitable.

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UK BANKING 4

Importance placed on securities market reform

Bank of England
DAVID LASCELLES

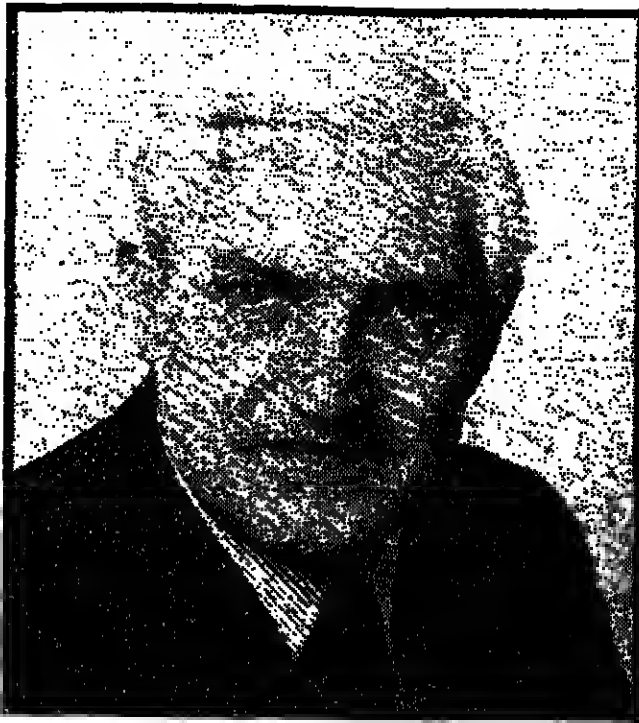
THE LAST 12 months have been little short of traumatic for the Bank of England. It was just over a year ago that the Johnson Matthey Bankers affair burst over its head. For most of the intervening period, the Old Lady has had to face an almost unceasing barrage of criticism not just for her shortcomings in allowing the crisis to happen in the first place, but for her alleged bungling of the clean-up afterwards.

The Bank's problems have just reached a climax with the resignation of Mr Christopher McMahon, the Deputy Governor, who has accepted an invitation to become chairman of the Midland Bank. He will be replaced by Mr George Blunden, a former Bank official who has been brought out of semi-retirement at the age of 62 to strengthen the Bank's supervision effort and, it is hoped, restore some of the prestige it has lost through the JMB affair.

Mr Blunden will also be chairman of a new committee that will pull together the Bank's rapidly proliferating responsibilities in the banking and securities markets.

Some of the criticism, at least, looks excessive. The Bank has never been short of enemies in either the City or Whitehall, and they have revelled in the opportunity to cast aspersions. Politically, too, it has suited the Government to place as much of the culpability as possible on the Bank.

But as the Bank itself has admitted, it is far from blameless. It has accepted responsibility for allowing JMB to slip through the supervisory net (though it claims it was wilfully misled by JMB management about the true state of the bank's affairs), and senior



Mr George Blunden (left) takes over at the end of this year as deputy governor of the Bank of England, succeeding Mr Christopher McMahon (right) who is leaving to become chairman of the Midland Bank after having been denied the governorship and coming under political attack over the Johnson Matthey Bankers affairs.

Their strongly contrasting personalities are expected to produce changes in the Bank's style. The intellectually agile and internationally renowned Mr McMahon gives way to a highly experienced Bank official who has worked in almost every department between joining the Bank in 1947 and his move to semi-retirement last year.

Mr Blunden, 62, appointed by 10 Downing Street, will have the task of boosting the Bank's supervisory function in the wake of the Johnson Matthey Bankers affair and preparing for the changes caused by the City Revolution. His special qualifications include a spell as head of the Supervision Division in 1974-76 when the Bank was organising a lifeboat to rescue the victims of the secondary banking crisis.



strongly criticised at the time as a political move by the Conservative Government to place a sympathetic figure in the City. Ironically, this did not prevent a rift opening up between the Bank and the Treasury over the JMB crisis. However, it has been argued that the Bank might have dealt with the crisis in a more confidence-inspiring fashion if it had been run by a "hands-on" governor with a stronger City background.

Mr Leigh-Pemberton has, however, tried to get to grips with the situation by calling in Mr Blunden, and beefing up the supervision department. Mr Blunden's appointment got a mixed reception. He is clearly a figure with stature and experience, but he does not have the breadth of Mr McMahon.

The Bank's inability to produce someone from within its own ranks to replace Mr McMahon was also viewed by some as an unfortunate reflection on the quality of its staff, and the political log-jam that must exist at high levels in Threadneedle Street.

But the new structure makes sense. The high level supervisory committee that Mr Blunden will run should strengthen the Bank's ability to supervise the multifaceted financial groupings that are being spawned by the City Revolution. By keeping in touch with other regulatory agencies like the Department of Trade and Industry, it should also prevent groupings escaping supervision by "falling through the cracks."

Along with the greater bureaucracy being built up in the Banking Supervision Department, all these changes will result in the Bank becoming a stodgier organisation. This is obviously regrettable. But there is a resigned acceptance in the City and the banking community that the City Revolution and the burgeoning growth of London as a financial centre may only have accelerated changes that were bound to happen anyway.

officials there admit that they were "politically naive" in expecting that Whitehall would lend unquestioning support.

Mr Robin Leigh-Pemberton, the Governor of the Bank, has also just taken steps to reorganise the Bank's supervision effort in a shake-up which stresses the new importance of the reform of the UK securities markets (in which the banking industry is deeply involved) and appears to reduce the role of Mr Peter Cooke, the assistant director who was in charge of banking supervision when the JMB crisis broke.

Underlying the attitude of most people in the financial community towards the Bank is a mixed feeling of regret and concern about the whole affair. Regret that a venerable institution which, on the whole, is highly respected for its competence and the calibre of its staff should have suffered this indignity. If only out of self-interest, the City wants to see the Bank's strength and prestige restored because that reinforces confidence in the financial community in general.

But there is concern too that JMB may have shown up weaknesses in this City bastion at a rather crucial moment. There is no question that the Bank's status has suffered because of the crisis, and with it the moral authority with which it regulates much of what goes on in the UK's vitally important financial markets.

The Bank not only supervises the banking system. In recent years it has assumed a broader

guardianship over the City as a whole. It has taken responsibility for the troubled Lloyds insurance exchange, and in the last couple of years, has been one of the masterminds behind the City Revolution. After "Big Bang" next year, the Bank will play a key role in regulating the gilt-edged market.

The question JMB raises is whether the largely informal methods through which the Bank conducts its supervision, and the moral sanction it uses to keep people in line, are adequate to preserve order in today's fast-changing and enormously complex financial world. Whether, indeed, moral sanction still works.

Although the Bank would like an affirmative answer to both questions, the reality is

probably no. It obviously suits the Bank to have unwritten rules because this gives it wider discretion and adds to its mystique—as well as fostering the less onerous regulatory system which most banking practitioners prefer.

The alternative—a more inquisitorial system like that in other countries such as West Germany and the U.S.—has also been no guarantee against bank scandal.

However, it is not only a question of spotting another JMB in good time; that, with luck, will be achieved by the new powers to command information which the Bank is to receive following the review of the supervisory system.

The bigger challenge is to supervise the enormously com-

plex new conglomerates that have been spawned by the City Revolution, in which the potential for conflict of interest—and therefore questionable practice—is large, and the exposure to risk will also be substantial and, often, hard to measure.

A further consideration is the much greater reluctance of the leading City institutions to rally to the Bank's support in a future crisis following its heavy-handed demand for indemnities to cover JMB's losses.

This reluctance may, of course, rapidly change into self-interested co-operation the moment another crisis strikes, but the Bank may not be able to count on it.

It is not clear at this stage what the alternative is, how-

ever. There have been calls for the removal of bank supervision from the Bank to a new specialised agency. But they have not drawn great support. (There is also a case for combining the role of bank supervisor and that of the monetary authority because of their strong overlapping interests).

In addition there has been a suggestion that a U.S.-style Securities and Exchange Commission be established. But that would cover only part of the Bank's regulatory freedom, and the idea does not have the present Government's favour.

Finally, there is the question of the governor himself. The appointment of the present incumbent, Mr Leigh-Pemberton, a lawyer and clearing bank chairman, in 1983 was

Profile: Johnson Matthey Bankers

By David Lascelles

A headache for the Old Lady

THE INITIALS JMB will be etched deep in UK banking history.

The small bullion bank which almost brought the City to a standstill and gave the Bank of England its biggest headache for years has yet to provide the final reckoning of its huge losses. But a year after its near collapse, the new directors appointed by the Bank (which now owns it) expect to lose £220m out of a loan book which totals only £400m, an achievement which must surely qualify it for some unenvied record.

The bank came to grief in classic fashion. It was chaotically run; it lent too much money to too few people (most of them Pakistani businessmen engaged in risky trading ventures), and when things started to go wrong, it tried to save itself by lending even more.

Whether there was fraud in addition to incompetence is a matter which the police are now investigating. There was certainly enough misleading reporting to conceal JMB's shocking state from both the Bank of England and its auditors, Arthur Young, for several months.

However, both the Bank and the auditors have been criticised for not being sharp-eyed enough, and Arthur Young face a lawsuit for "substantial damages" (which they will contest vigorously).

Since the midnight rescue on October 1 1984, when the Bank of England bought JMB off its parent, the Johnson Matthey group for £1, a team of Bank officials and secondaries for other UK banks have been working to clear up the mess.

They have called in receivers to several companies owned by

HOW THE SAGA EVOLVED

- 1980-84. JMB, encouraged by its parent, Johnson Matthey plc, diversifies from bullion into the leading business. Its loan book grows more than tenfold in only four years to nearly £500m.
- June 1984. JMB reports a drop in profits, partly because problems on West African loans. Arthur Young gives clean bill of health.
- September 1984: problems escalate rapidly.
- October 1: JMB rescued and bought by the Bank of England for £1.
- November 7: UK banks agree to put up £75m to cover JMB's losses, provided Bank of England puts up like amount.
- December 17: Chancellor announces review of banking supervision.
- December 19: Bank of England confirms it has placed £100m in JMB.
- June 20 1985: Chancellor announces reforms to banking supervision. JMB says it will sue Arthur Young for "substantial damages."
- July 17: police asked to investigate JMB.

doubtful JMB clients, demanded fresh collateral from others, sorted out the confused documentation particularly on JMB's export credit loans, some of which were not recorded at all.

The Bank of England has also invested £100m in the bank to enable it to stay in business, mainly in the bullion market where it is one of the five members of the gold ring. In addition, UK banks have agreed to provide up to £75m to cover whatever losses cannot be met from JMB's £180m of capital. (The Bank has agreed to provide a like amount.) So far they have been asked to stump up about £17m of that.

Today, JMB's loan book totals about £400m, of which £310m has been classified as bad or doubtful. The provisions amount to £220m. The final losses depend on how much JMB can recover from its problem borrowers, and whether Nigeria

pays off its debts to the large number of JMB clients who did business there.

The hope is to get JMB back into a condition which will enable it to be sold off again. Initially some 40 institutions showed interest in buying it. Since the fraud investigation was announced in July, five have retracted their interest.

The eventual purchaser can expect to get a thriving gold bullion business, a much reduced but hopefully clean loan book, and the possibility of a damages payment from Arthur Young (but also the legal fees associated with the case).

The proceeds from the sale will go first to pay off the Bank's investment and the banks' contribution to the loan losses. The rest will be profit for the Bank itself, though nothing could compensate the Old Lady for all she has been through.

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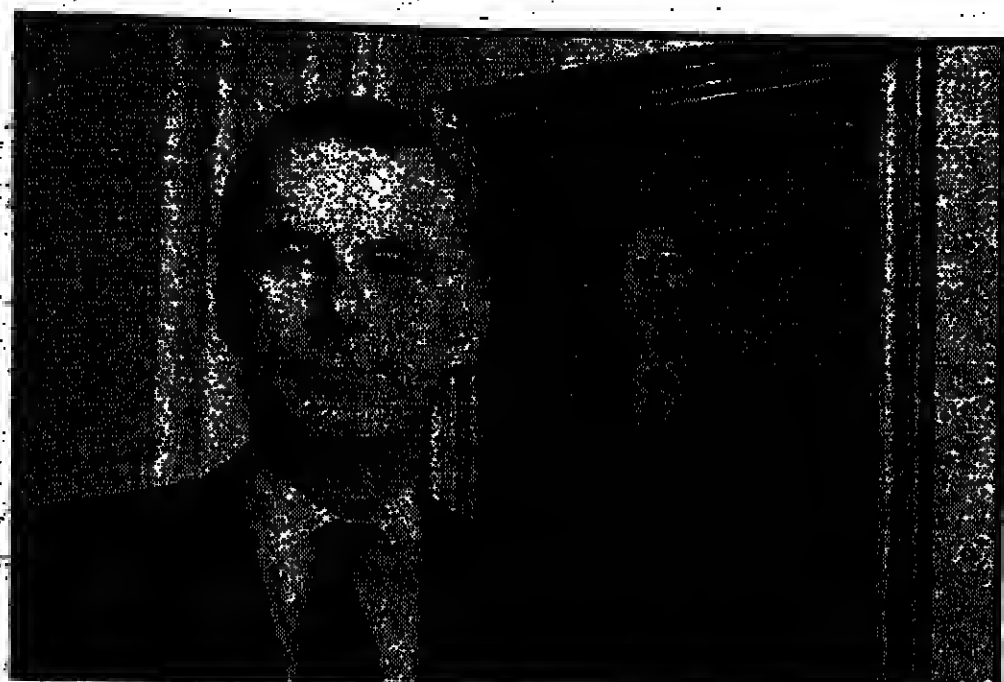
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UK BANKING 5



Relying on diversification

Merchant Banks

BARRY RILEY

IT IS a long time since London's merchant banks were merchants; and before very long, many of them may cease to be banks in any significant meaning of the word.

The merchant banks have always been at the volatile, entrepreneurial end of the City's spectrum of activity. With merchant bankers the important thing is not so much what they are, but who they are.

Traditionally they were personally well-connected, with strong family dynasties running through the Barings, the Rothschilds and the Hambros. Today family links count for rather less, but the emphasis is very much on individual talent, especially from Oxbridge, heading a bath to their doors.

The lure is that a merchant banker can be a key executive at 30, and can be running the bank at 40, while a clearing banker or an insurance man is still grinding his way up the ladder in a remote division.

But however attractive this may seem for the ambitious youngster, there are important disadvantages, too. The reliance on individual talent rather than organisational structure means that a large merchant bank can eventually become unmanageable. And there are constant ups and downs, as that warbling and Morgan Grenfell have recently been on the crest of a wave while Schroder and Hill Samuel, for instance, have been struggling to recover. Few would care to predict how the various houses will fare in the future.

Within this entrepreneurial framework, there have already been substantial shifts in activity during the past few decades. The banking activities have been squeezed into more and more specialist areas, while there has been a substantial growth in corporate finance.

And there has been headlong expansion in investment man-

agement, where members of the accepting houses committee now run discretionary portfolios of around £50bn. These dwarf their banking deposits of some £25bn, emphasising how much they have become drawn towards the securities markets even before the massive structural changes associated with the City Revolution have taken effect.

Indeed some of the big merchant banks already earn more than half their profits from fund management and associated activities — although this cannot be gleaned from their published accounts which remain opaque to the extent that they still do not disclose true profits (though the need to present strong balance sheets has meant that hidden reserves have in most cases been pared down to fairly minor proportions).

Within an entrepreneurial framework, there have already been substantial shifts in activity during the past few decades. Banking activities have increasingly become squeezed into more specialist areas.

With opportunities limited in pure banking, a number of merchant banks have explored the scope for diversification into other financial services.

Many are developing a presence in personal finance, through unit trusts and like insurance subsidiaries, and through attempts to develop a viable business with high net worth individuals (Hill Samuel) and financial management services (Schroder).

The synergy of such activities has not always been obvious, and now many of them are vulnerable as the merchant

ever, are being a little more circumspect. They may be making a virtue out of necessity, in that they do not sell their own commodity — the required capital or 'shoulder the risk' of a major securities market initiative. But it is also true that specialisation has been an honourable and successful tradition among the London merchant banks.

So Schroder, for instance, has decided against becoming an official market maker in gilt-edged stocks, and has concentrated upon the lengthy process of building up its own teams of securities traders, salesmen and researchers rather than paying a large amount for the goodwill of the existing brokers and jobbing firms.

Robert Fleming has incurred the wrath of the Stock Exchange

Mr Christopher Reeves, chairman and chief executive of Morgan Grenfell. The bank last month announced a holding company structure which clearly split up its banking, investment management and new securities activities. Such a reorganisation makes sense in terms of the impact it may have on the perceptions of customers who might be worried about the multiplication of conflicts of interest when merchant banks move directly into the stock market. But there is a risk that management styles, which in the past have depended on close contact between departments, may suffer.

by setting up its own jobbing business in selected UK equities, again in preference to buying an existing firm. Still other merchant banks, like N. M. Rothschild and Hambros, have taken trade investments in Stock Exchange firms but appear to be reluctant to enter into a full-blooded commitment.

The smaller merchant banks are forced to face up to the fact that if they seek to become major players in the new-style securities market, the competition will consist not just of the other merchant banks but also the UK clearing banks and a number of American commercial banks and investment banks.

Depth of management resources is bound to be a key factor in determining which contenders will be successful, and this is not an area where merchant banks have traditionally been strong.

The merchant banks are grappling with the implications for their corporate and management structures, and several have recently announced reorganisations.

Last month, for example, Morgan Grenfell announced a holding company structure which clearly split up the bank, the investment management side and the new securities business. National Westminster also unveiled a similar structure for its investment banking operations.

Such reorganisations make sense in terms of their impact on the perceptions of customers, but they also pose serious problems for the merchant banks. They have to move directly into the stock market. But they may threaten the management styles of merchant banks, which have depended in the past on close contacts between departments.

Meanwhile, as the merchant banks expand into securities trading, the intriguing question is whether their pure banking operations will suffer. Banking has become highly competitive and good corporate business carries only very low margins. Banking also needs a heavy commitment of capital — a commodity which is going to be in very short supply from the merchant banks in the next few years.

major Bank of England review of off-balance sheet risk.

Bond dealers and new issue managers expect to join a new Self Regulatory Organisation (SRO) which will cover all firms engaged in international securities business including equities.

The Swiss-based Association of International Bond Dealers aims to take a hand in regulatory affairs by becoming designated as an overseas exchange. This will allow it to play a consulting role as an arbiter of international bond business.

As far as the Eurobond business is concerned, banks should have a better indication of the Bank of England's intentions before the end of the year, when it is due to publish a consultative document. But the Bank has made no secret of its concern over the way in which banks have been taking on underwriting commitments which are not recorded in their balance sheets and not backed up with capital.

It believes that many of these commitments are taken on at terms which do not reflect the risks involved and some international bank managements are also no longer fully aware of the nature of the business their banks are undertaking.

As a temporary measure banks now have to treat these underwriting commitments as having half the value of a straightforward loan when calculating their capital needs, but the general tone of the Bank's comments suggest its consultative document may be quite severe.

The problem it faces is that other central banks are making slower progress with off-balance sheet regulation and the Bank cannot become so strict that business is simply driven elsewhere. That would be like killing the golden egg even if there are now so many geese in the Eurobond market that the price of eggs (and gold) has fallen.

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Euromarkets

PETER MONTAGNON

THIS year's move by Deutsche Bank of its dollar Eurobond business to London has underscored the central role played by the City in the international capital markets.

Deutsche Bank has always been a big league player in the rapidly growing Eurobond market but had apparently become frustrated by its out-of-town location in Frankfurt which is, by comparison with London, a backwater for international business.

Indeed, Euromarket bankers increasingly view London these days as the pivot of a market system that will eventually include two other "megacentres" — New York and Tokyo.

London might well have reached this position even without the much-awaited City Revolution, they say, simply because its infrastructure and ancillary services in fields such as law and accounting leave it streets ahead of other centres in a marketplace that increasingly thrives on complicated innovation and sophisticated trading techniques.

Besides, London has a huge advantage in its time zone, midway between the U.S. and the Far East. Its language also gives it the edge over potential rivals on the Continent, as does the fact that the dollar remains the largest single vehicle for international capital market transactions and dollar deals tend to be handled by houses based in London.

So far in 1985 the dollar bond market has been enjoying another record year. According to the U.S. bank Morgan Guaranty, dollar Eurobonds issued between January and June this year amounted to

\$51.8bn, almost double the total of \$27.9bn for the first half of 1984, and coming almost within striking distance of the \$63.6bn total for 1984 as a whole.

Although the business in Eurocurrency bank credits — also centred mainly on London — has fallen back considerably with a first half total of \$41.7bn against \$71.5bn in the same period of 1984, business in the fledgling Eurobonds insurance market is booming.

The banking magazine Euro-money reckons that new Eurobonds issued in the first half of 1985 amounted to \$18.7bn, more than the \$17.4bn total for the whole of 1984.

All these figures suggest that the Euromarket banking com-

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munity should be a generally rather happy lot in 1985. In fact, despite its successes so far this year, the market is overshadowed by a number of worries which all basically boil down to the age-old problem of too many banks chasing too little business.

Although there are no reliable figures available, bankers believe that profits on new Eurobond business could be down in 1985, even though the generous terms on the recent \$2.5bn UK floating rate note may have repaired some of the damage.

In the secondary market,

In other words banks are squeezed out of their traditional lending business by the new market. Worse still most of the business done in the new market simply represents a refinancing of existing bank loans on cheaper terms.

On top of this bankers are having to contend with a growing pressure for regulation of the markets. Such pressure is in large part a natural function of the degree to which the markets have become overcrowded. So far it has taken two forms with the bond market caught up in regulatory arrangements for the new-style City, while the Eurobond business is part of a

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UK BANKING 6

Steady rise in retail funding costs

Building Societies

CLIVE WOLMAN

SOME OF the most important practical effects of the moves to promote competition between banks and building societies on an even playing field have become apparent over the past six months.

Competition has sprung up or intensified in every field: deposit-taking and wholesale funding, cash transmission and other customer branch services, and lending. But the full consequences of these changes will take at least another two years to unwind.

In the battle for retail deposits, the introduction of the Composite Rate of Tax (CRT) on the interest paid by banks has spurred them into reversing the 15-year decline of their market share by raising the rates on their deposit accounts to close to those of the building societies.

As a consequence, both banks and building societies have been suffering a steady rise in the costs of their retail funding as savers switch their money into higher interest-paying accounts. The building societies overtook the banks as the main repository for savers' funds 10 years ago. But a watershed was reached last year when the building societies' share of personal sector savings rose above 50 per cent while the banks' fell below a third.

The banks had long complained that CRT on building societies gave them an unfair advantage by allowing them to pay a higher after-tax rate of interest. But this was partially offset by the tendency of customers to compare the banks' gross rate with the building societies' net rate as the main quoted rates of the two institutions.

The imposition of CRT on the

banks in the 1984 Budget, coupled with growing worries about the riskiness and stability of their funding from other (particularly international) sources, prompted the banks to market higher interest paying accounts with rates only slightly below those of the building societies in the run-up to the change taking effect in April of this year.

Many societies responded by pushing up their rates even further so that by April the margin of their average retail cost of funding over the whole-

Increased awareness of interest rates by depositors is both a cause and effect of the greater competition. Like the banks, the building societies have been suffering from an "internal migration" of funds to their higher interest and term accounts.

The proportion of building society depositors' money in the lowest paying ordinary accounts has fallen sharply from 78.3 per cent in 1980 to 32.3 per cent four years later. Money in the high interest accounts has risen over the same period from

opening branches on Saturdays, whilst the building societies, although opening on Saturdays, have been forced to cut back on the number of new branches they are opening.

At the same time, the superiority of the banks' cash dispensing and transmission services is being challenged by the establishment of automated teller machine (ATM) networks such as Link.

The 17 Link members have agreed to install nearly 700 compatible ATMs by the end of next year to service over 4m card-

Although activity declined in the early part of this year, over the last six months the benefits of wholesale funding have been highlighted as the cost of funds from building society depositors in relation to wholesale funding costs has soared.

On syndicated loans from the short and medium term Euro-sterling markets, the societies have been able to reduce their funding costs to between only 12 and 20 basis points over the London inter-bank offered rate. Although such funding is most attractive to the largest five societies, each with over £50m of assets, the market has been tapped by many middle-ranking societies. Midlands, 18th in size with £800m of assets, has been the smallest.

The possibilities have been extended this month with the opening of the Eurobond market to the societies. The Halifax is the first to tap the market with a £150m floating rate note issue on the finest terms. Following the Green Paper proposal, the Building Societies Bill due for the next parliamentary session should allow the societies to raise up to 20 per cent of their funds from wholesale sources.

But perhaps the most interesting developments are likely to come on the asset side of the building societies' balance sheets.

The effect of the cartel was to hold mortgage interest rates down below the market clearing rates, which was particularly important at times of high inflation and high nominal interest rates. In 1980, for example, the mortgage rate was 2 percentage points below the banks' base rates.

This affected profoundly the societies' marketing philosophy. All their efforts had to be directed towards the raising of funds by devising new types of savings media with differing minimum deposits, thresholds and notice periods. But little imagination was applied to the

Like the banks, the societies have been suffering from an "internal migration" of funds to higher interest and term accounts. At the same time they have been forced to abandon or reduce withdrawal and notice conditions

sale and money market rates reached a record high. Even the largest societies, the Halifax, Abbey National and Woolwich, were offering until August rates of interest on three month notice accounts of almost 16 per cent on a fully-compounded grossed-up (no tax) basis, although the banks' base rates had fallen to as low as 11.6 per cent.

Even now, after last month's cuts in building society rates, the margin enjoyed by depositors in the highest rate accounts is still almost 2.5 percentage points over base rates. Thanks to competition with the banks and the break-up of the societies' interest rate cartel, a recurrence of the 1974-75 and 1979-80 situations when savers were offered rates well below the wholesale rates (and the inflation rate) is unlikely.

£750m (1.5 per cent of total) to £40.9bn (44.7 per cent).

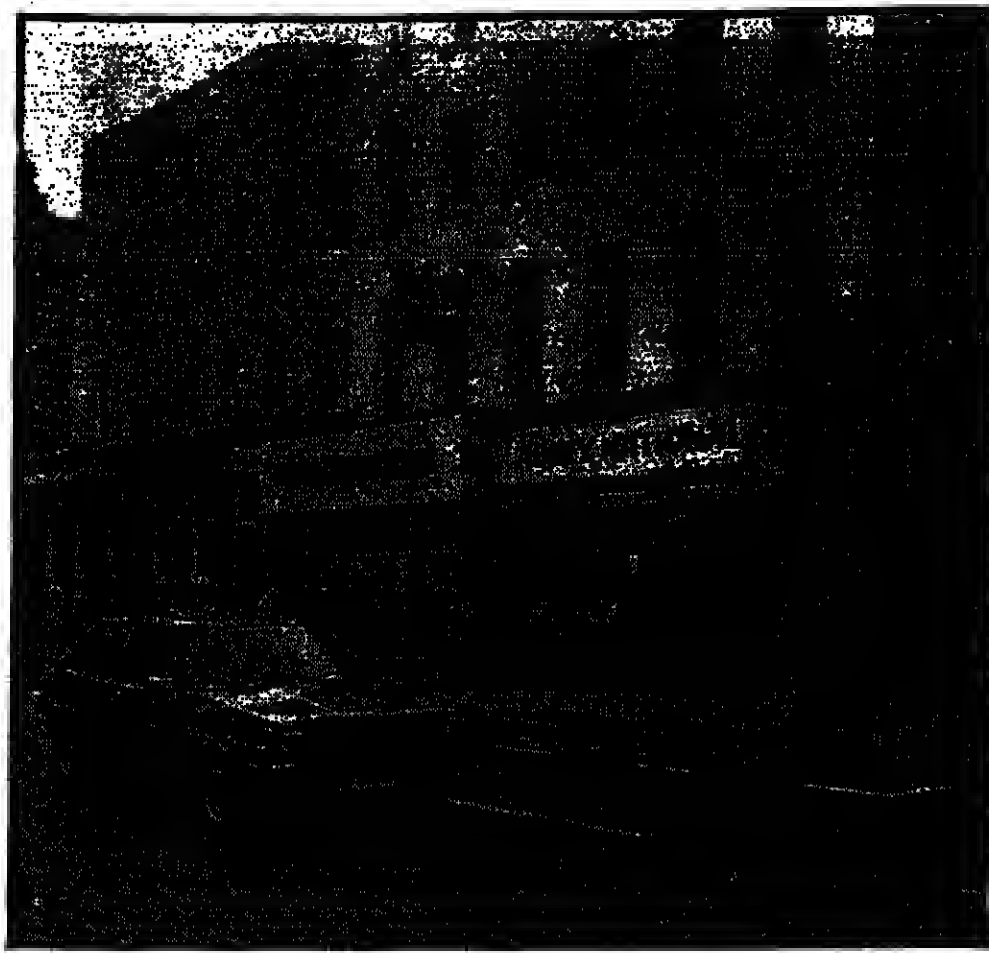
At the same time, the societies have been forced to abandon or reduce their withdrawal and notice conditions. For example, the proportion of money tied up for at least two years fell from 15.1 per cent in 1982 to 5.4 per cent in 1984.

As the 1985 Fact Book of the Building Societies Association, published last month, indicates the more competitive rates of interest have been the main reason for the fall in the total surplus (profit) of building societies from £888m in 1983 to £626m in 1984.

The societies have also been feeling greater competitive pressure from the banks in their supplementary services for holders. The first ones are now being installed. Abbey National (with 230 ATMs planned) is the leading member of the consortium followed by the National Girobank, Nationwide Building Society and the Co-operative Bank.

The other building societies due to install Link ATMs are the Coventry, Gateway, Town & Country, Yorkshire, Chelsea, Derbyshire and Portman societies which are all in the top 30 largest societies, as well as the Sussex County, Dunfermline, Eastbourne and Peterborough societies.

The other, more indirect challenge from the building societies has come from their increasing use of funding from the money markets. The funds raised from the wholesale markets have risen from £230m in 1982 to £2.23bn last year.



Close competition. The societies have been feeling greater competitive pressure from the banks in their supplementary services for depositors

design and organisation of services for the convenience of mortgage customers.

There have been three important boosts to mortgage competition over the last two years. The interest rate cartel has broken up and its vestiges in the form of official Building Societies Association advice on rates are also disappearing. The attractions of investment in government securities, where funds not lent as mortgages are usually kept, have been reduced by changes in the tax regime

introduced last year. This has spurred the societies into increasing the proportion of their assets held as mortgages.

Finally, over the past year the clearing banks have returned to the mortgage market with more ambitious lending targets — and they have been joined by foreign and merchant banks.

One effect of these changes has been to force many societies to advertise their mortgages for the first time in order to generate sufficient demand for their funds. Mortgage queues

have disappeared, possibly for ever.

But these changes in the market place have done little so far to promote the marketing of new mortgage products such as are available to U.S. home purchasers, such as fixed-rate, pension-linked, index-linked, Libor-linked or low-start. But product innovation in lending should speed up, particularly once the societies are granted the freedom to offer personal, unsecured loans in the forthcoming parliamentary Bill.

Venture Capital

Enthusiasm fostered by political climate

BY TERRY GARRETT



Mr John Foulds head of 3i, the former Investors in Industry

AS VENTURE capitalists, Europeans are told that they are well behind their U.S. cousins. That point is a slightly unfair picture of those who dwell on the eastern side of the Atlantic for, quite obviously, venture capital, which might be better termed risk capital, has been part of business life since the year dot. What is a fairer criticism is that Americans structured the venture capital market years before Europeans warmed to the idea.

Inevitably the concept did not travel across the ocean totally unchanged. Tax regimes, financial markets and, indeed, attitudes to entrepreneurial endeavours vary from country to country but the venture capital industry is now flourishing in Europe and nowhere better than in the UK, even if it is a decade or two later than in the U.S.

There are more than 100 organisations within the UK offering venture capital investment, a large proportion of them having come on the scene during the last five to six years. Institutions and financial advisers have been falling over themselves to climb aboard this rapidly growing sector—and the banks, clearers and merchant are up there with the best of them.

The surge of enthusiasm can be attributed to several factors. British banks and institutions have watched some incredible success stories in the U.S. and, more importantly, the political climate in the UK has favoured the rejuvenation of small business.

The Government's Business Expansion Scheme for all its faults has done an excellent job of promoting awareness (and the tax advantages) of investing in small companies.

The granddaddy of the industry has to be ICFI, (previously The Industrial and Commercial Finance Corporation) which is part of 3i (Investors in Industry as it was). The institution was established with the banks and the authorities through the Bank of England to fill a funding gap. But the whole sector is mushrooming and whereas 3i might have accounted for over 50 per cent of the venture capital market a few years ago

its position is probably around 20 to 25 per cent today. The banks themselves have done much to erode the position of their offspring.

Exactly how far each bank has travelled along the route of venture capital varies considerably, not least because the term itself is a loose one interpreted differently by the various players in the market.

It would seem fairly obvious that venture capital must mean the investment of resources in a young, potentially fast growing, business starved of funds. But how that investment breaks down between loans and pure risk equity, or at what stage venture capital becomes development capital, when a company has reached a more mature status, is something that the practitioners will argue at length.

In one form or another the clearest have been involved in venture capital since the late sixties. The stock market was performing well, equity investment was popular and backlist young companies that had good chances of coming to the stock market seemed a sensible way of making money. The crash of 1974 changed perceptions of venture capital, as might be expected, and as a sector it lay dormant (relative to today at least), apart from the efforts of ICFI, Charterhouse and a few committed investors.

It was not until the late seventies that the clearest started to stir themselves again in more positive ways. At the Midland Bank, for example, Midland Bank Equity Group had been around since 1966 but it has grown rapidly in the last five years with around £50m outstanding at present in 150 investments.

Like other banks, the Midland made a positive decision towards the end of the seventies to promote and expand its venture capital activities. Unlike the 3i structures, Midland has skewed itself towards equity investment rather than loans in its portfolio. Only 7 per cent of the Midland money is represented by loan capital, whereas a typical investment by 3i might contain a far larger loan element.

Over at National Westminster

the picture is slightly different in that much of its venture capital investment is deliberately passed across to County Bank, its merchant banking arm.

County has been accumulating a venture capital portfolio since 1969, and to date there are some 160 to 170 investments on the book of County Bank Development Capital (a new division set up a year ago to put a greater emphasis on the activity).

But County, like 3i, has an investment portfolio which is biased towards loans rather than risk equity. Of the £84m outstanding only £20m is in equity, with the rest represented by loans or convertibles. In fairness that stance is changing with new investments geared towards equity rather than safer loan investments.

National Westminster itself has just relaunched its Venture Capital Scheme for Small Companies which provides loans of £25,000 and £200,000. The bank will take an option to purchase a minority shareholding in the company, usually less than 25 per cent, which can be exercised at any time during the agreed repayment period.

This, the bank says, will fill the gap which has emerged in the market below the level that most specialist venture capital groups are active.

Barclays Bank, like others in the field had carried out venture capital activities on an ad hoc basis throughout the 70s but in March 1979 it formalised its presence with Barclays Development Capital, which has since invested £28m in 57 companies, the bulk of that in the form of equity rather than loans.

Lloyds Bank has lived up to its rather cautious reputation. Lloyds Development Capital was not started until 1981. So far £8m has been invested in a spread of over 20 companies.

Outside of the big four clearing banks there is, of course, a host of other venture capital specialists and all the merchant banks are active in the field to varying extents. Guides to sources of capital are produced by groups such as London-based Venture Economics or the large accounting firms such as Peat, Marwick Mitchell.

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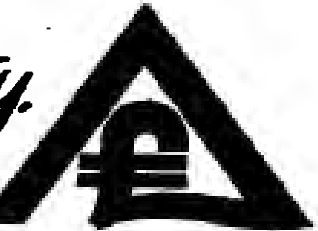
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Shift to higher quality business

International Banking
DAVID LASCELLES

THE South African debt moratorium, Crocker National Bank, Latin America: British banks have been cautious about expanding their international business. But some of them can afford to stand still or even retreat in today's world markets, and the formulation of a successful international strategy has become a delicate task.

As the graph shows, the clearing earnings from their international operations have been erratic, to say the least, over the last 18 months, largely because of the possible absorption of National Westminster Bank, they have taken some knocks.

There has also been the cost of making provision against doubtful Third World debts, to which Lloyds and Midland have been heavily exposed. Barclays has also suffered losses in Hong Kong and the U.S., though these now appear to be past.

If asked point blank, few if any of the big clearing banks would say they expected their international earnings to grow as a proportion of the total in the next few years. Most would expect them to hold level or fall a bit.

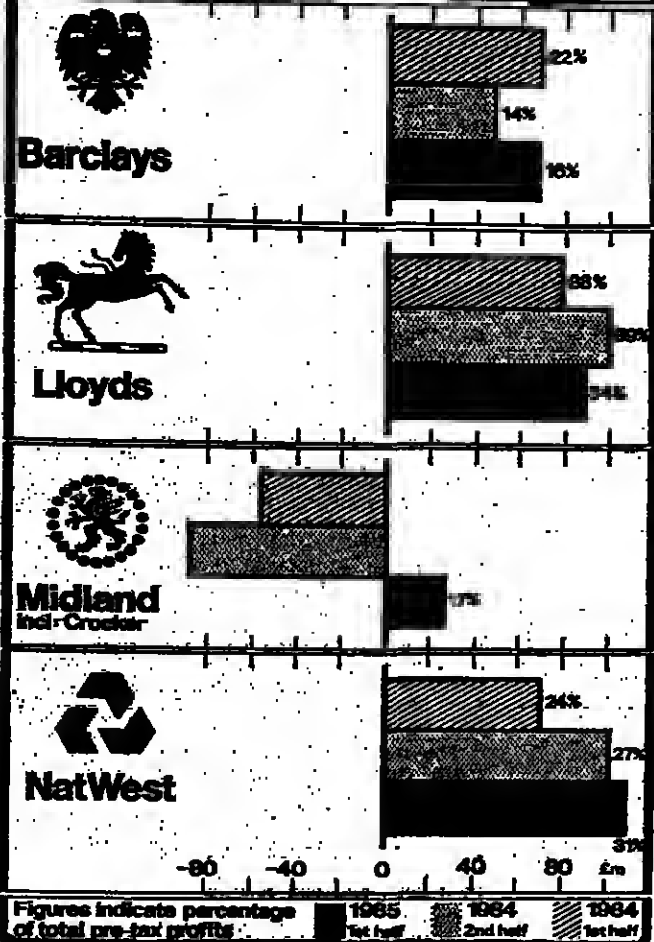
But all the banks would say they were engaged in shifting business out of risky, unpredictable markets, particularly in the developing world, and going for higher quality business in North America, Europe and the Far East, even if this means more competition and lower margins.

The most striking example of this is the combined effort of Barclays and Standard Chartered to disengage themselves from South Africa, and concentrate their resources elsewhere. In the last six months, both banks have reduced their holdings in their South African subsidiaries to below 50 per cent, and turned them into some 50 per cent companies.

Barclays' National Bank, South Africa's largest bank, will also change its name to "erase the taint". As it turned out, both banks were extremely successful in the debt moratorium announced by Pretoria on September 1 still caught the two banks with the largest exposure to the republic of any foreign banks. According to W. Greenwell, the UK stockbroker, this amounted to some 50 per cent of Barclays' assets, and 11.1 per cent of Standard Chartered's (4 per cent).

Presumably, they will try to reduce their exposure when they get the opportunity. However, evidence of Standard Chartered's determination to build up alternative business came with the acquisition in early September of a bank in Arizona for \$250m, which will give this ex-colonial bank a

INTERNATIONAL EARNINGS OF THE BIG FOUR CLEARERS



larger business in North America than South Africa, and add to its existing banking operations in California and New York.

The move was typical of the attractions which have lured all the large UK clearers into the U.S. commercial and retail banking markets in recent years, with mixed results to put it mildly.

With luck, Midland should now be past the worst of its disastrous acquisition of Crocker National Bank, which lost \$240m over the last two years. Midland now has full control of Crocker and is slowly steering it back into the black, while absorbing it into the Midland group. Crocker will become, essentially, a domestic U.S. bank, with overseas operations transferred to Midland's international division.

By the end of the century, possibly, Midland may be able to justify this extravagant venture, in terms of a large and lucrative U.S. market share. But the deal will go down as one of the most colossal banking blunders in history, and a cautionary tale in how not to take on the Americans.

The other clearers' U.S. operations are improving. NatWest, U.S.A. recently lost \$100m in its U.S. venture by a British bank, increased profits by 60 per cent to \$40m in the first half of this year, mainly by ploughing a steady but determined furrow in the New York retail and small company market.

Barclays and Lloyds also seem to be making headway with their extensive banking operations in New York and California.

Other markets being eyed by the clearers include the Pacific basin, where all but Midland are being admitted to the newly liberalised Australian market. They are also keen to expand in Japan, particularly on the securities side.

Business is growing in

Europe, where the clearers have branches or subsidiaries in most countries. Earlier this year, NatWest broadened the growing Spanish market by buying into Banca March—Spain's 19th largest bank—anticipating the growth in business that should come when Spain becomes a member of the EEC.

A new side to the banks' expansion is their growing involvement in the securities markets as a result of the City Revolution. All the clearers have expressed their ambition to establish global securities operations, to match the growing preference for securities finance among their corporate clients, and to have a presence in the major capital markets.

NatWest has just formed a new investment bank, which it hopes will get securities licences in both Tokyo and New York. Barclays has similar goals for Barclays de Zoete Wedd, its newly formed securities group, though it is less advanced on the U.S. market than NatWest.

Lloyds will be expanding on the securities side through its new merchant banking subsidiary which combines many of the activities previously in Lloyds Bank International, its overseas arm which has now been merged into the parent bank.

At Midland, the expansion will come largely through Samuel Montagu, its merchant banking subsidiary which is to take over, among other things, the international capital markets activities of Crocker National Bank.

This is also one of the main areas of overseas expansion by British merchant banks, which are particularly attracted by overseas securities and corporate finance business. Their main focus has been the Far East and New York where they intend to concentrate the international expertise which has long been one of their hallmarks.

Loans Corporation has highlighted the possibility of removing all or nearly all the credit and interest rate risk of mortgages from a balance sheet by packaging them off as securities. In particular, Lloyds is considering the securitisation of £100m to £200m of mortgage assets.

The removal of the solicitors' monopoly over conveyancing next year will also allow the banks to set up a one-stop

house sale and purchase service which will deal with everything from estate agency and financing to moving the furniture and re-connecting the electricity.

Lloyds, with its Black Horse estate agency, is probably the best placed to attack this market.

In the first three months of this year, when base rates pushed up well above mortgage interest rates, the banks reported losses on their mortgage books. However since March, that relationship has been reversed and the banks were able to charge their mortgage customers an average of nearly two percentage points above base rates. They have also forced the building societies to bring down their rates to borrowers.

This in turn forced the societies last month to cut their

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An increasing trend towards self-service

New Technology
ALAN CAME

BRITISH BANKS, in concert with their counterparts worldwide, are positioning themselves for a future in which both their business and the systems they use to deliver their services will be radically different from today.

In retail banking, for example, robot cashiers will gradually take over from their human counterparts. The first signs of this revolution are already apparent with the popularity of automatic teller machines (ATMs), the banks-in-the-wall which will deliver cash, satisfy a balance request, grant a loan or process a request for a statement or new cheque book.

Specialised ATMs have been popular in the U.S. and Japan for some years, but they are only now making an appearance in Europe.

These specialised machines are much more limited in function than full-feature ATMs; they may, in fact, perform only a single service like dispensing cash.

The trend, however, is towards providing a row of these specialised machines in the banking hall, rather than through the walls, each set up for a specific service—cash dispensing, balance enquiry, cash transfer and so on.

Used in this way, ATMs can take over many of the repetitive jobs now carried out by human staff. There are, however, the usual kind of social problems generated in dealing with robots. The National Consumer Council called for safeguards for bank customers who lose money through cash dispenser errors earlier this year.

Three areas of concern were identified by the BBC Radio 4 consumer programme You and Yours: dispensation of fewer notes than requested, debiting of the same transaction twice and the bank's refusal to accept that it was not personally responsible.

Rabot have their uses, however. ATM producer NCR in Dundee, Scotland, notes a Valmet-Finns 500-robot has inserted a plastic card in an ATM, inserted a £10 note and dispensed it. It tests four ATMs at a time, 24 hours a day, seven days a week. Humans, it seems, could not stand the monotony.

Two other areas in retail banking are generating interest. Electronic funds transfer at the point of sale (eftpos)—the key to cashless shopping—and home banking.

Eftpos (the computing services company) has introduced a more attractive name would be personal payments systems) has a chequered history in the UK. Several years of abortive planning led at last to the decision in January of this year that the clearing banks in agreement with the Retail Consortium (acting on behalf of the nation's

shopkeepers) would go ahead with plans for a nation-wide cashless shopping venture.

Three pilot schemes were announced in the middle of the year. Midland Bank this autumn starts an experiment in Milton Keynes.

The aim of eftpos systems is to eliminate cash together with the paperwork involved in making a payment by cheque. The customer in a store using an eftpos system presents a plastic card, exactly similar to a credit or cash card, to the cashier.

The cashier "swipes" the card through the eftpos device which automatically telephones a central computer centre to check the card is valid, not on a list of stolen cards and that the purchase amount is within the card holder's credit limit.

Assuming all is in order, the signal is given for the sale to proceed and the card holder's account is debited and the store's account credited simultaneously and instantly.

Many questions remain to be answered about the way the system should best operate; the bank's eftpos development team under Mr Douglas McCallum is already hard at work sorting out solutions. The accountants Deloitte Haskins and Sells is investigating the costs and benefits of cashless shopping to the parties involved.

But if the details remain to be settled, there is little doubt that eftpos will go ahead in the UK, and electronics manufacturers are jockeying for position as suppliers of the equipment which will be needed.

The bank network which will carry the transaction details has been left to British Telecom and IBM but contracts for the eftpos terminals remain open.

The widespread growth of home- and office-banking is much more tentative.

Chiefly led by the big U.S. banks—Chemical, Chase Manhattan and Citibank, all have extensive home banking programmes—UK banks still have their reservations about market demand for the service and whether it can be provided cost-effectively.

Midland Bank has been running a trial, now ended, of a form of home banking by setting up terminals in a number of its branches.

Mr David Bayliss, the manager responsible for electronic banking at Midland says the trial has been a success:

"We learned a great deal, especially about the security aspects. We had the usual problems with 'hackers' trying to break into our system but we learned what to look out for and how to make our systems difficult to crack."

But the levels of security needed in these public systems can be trying to the user. The pioneers of home banking in the UK, Nottingham Building Society and the Bank of Scotland developed a system running on Prestel which requires the keying in of 47 digits before a statement can be checked or a bill paid.

The banks' chief challenge over the next few days will be a complete overhaul of their computing and communications systems.

Most of the big banks are still using computer installations which were designed in the 1950s for predominantly batch processing—in other words, raw data was collected through the day, fed to the machine in batches, processed, and sent back the following day.

Now with the growth of ATM's, cash dispensers and other forms of robot cashier—not to mention home banking—the banks are trying to handle on-line, real time operations with machines. Real time means that when customers ask for particular information, they get it there and then.

So the banks are looking to the next generation of very powerful mainframes and ever bigger disk drives holding much larger volumes of information on-line.

They are also building better, more flexible telecommunications networks. Saturday opening for banks like NatWest and Midland will only be possible through advanced telecommunications networks to handle substantial numbers of automated tellers.

There is a steady move to change the distribution of computing power in the banking industry, with the growth of the branch processor, a small but powerful microcomputer based in the branch. This handles not only branch accounting but also all the self-service devices for customers, ATMs and so on, as well as the electronic aids for the staff—counter terminals, back office accounting terminals, enquiry terminals.

There is growing use of the branch processor to hold customer information in which it can easily be called up by the branch manager.

The information can be used in various ways—as a guide to lending or to help pinpoint groups of customers for a specialised marketing effort.

U.S. banks are already using this kind of decision support system to help their marketing efforts, but it is new to the UK.

Overall, the trend to self-service banking both at the individual and corporate level in the UK is increasing albeit slowly. One bank has asked it to a series of self-service petrol stations: "At first, you would do anything to avoid them. Now you feel insulted if you cannot serve yourself."

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There is growing use of the branch processor to hold customer information in which it can easily be called up by the branch manager.

The information can be used in various ways—as a guide to lending or to help pinpoint groups of customers for a specialised marketing effort.

U.S. banks are already using this kind of decision support system to help their marketing efforts, but it is new to the UK.

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Closer watch on fresh areas of risk

Supervision

DAVID LASCELLES

THE QUESTION of how to improve the UK's methods of prudential supervision has become one of the key issues in UK banking. This is not merely because the Johnson-Matthews crisis has shown up failings in the Bank of England's time-honoured methods, which rely heavily on informal contact and a willingness by bankers to cooperate with the bank.

Supervision today has assumed a much broader importance than just checking banks' books. The City Revolution, which has drawn banks into new areas of risk like the securities markets, raises wholly new questions about the assessment and control of risk. The global trend in banking towards innovation has also set alarm bells ringing and produced calls for greater prudence.

The UK central bank's view of this fast-changing world was summed up in a recent wide-ranging speech by Mr Christopher McMahon, the outgoing deputy governor. "The new risks which are increasingly evident, as what were once simply innovations cease to be novelties and become the staples of the new industry, must be carefully controlled, monitored and accurately assessed."

The Bank, which is ultimately responsible for ensuring the soundness of the UK banking system, is trying to tackle these concerns in several ways, though the Treasury, which is also involved, is keen to avoid a "knee jerk" reaction to JMB.

A fortnight ago, Mr Robin Leigh-Pemberton, the governor of the Bank of England, announced a major shake-up in the upper echelons of the Bank specifically to strengthen its supervisory function. The announcement coincided with the appointment of Mr George Blunden, a former Bank official who had worked in almost every department including supervision in the course of a 34-year career, to succeed Mr McMahon.

The key change is the creation of a new high level committee chaired by the Deputy Governor to set supervisory policy, and also pull together the many supervisory duties which the Bank now has. The members of the committee are: Mr Rodney Galpin, who has

been given overall responsibility for supervision of banks. Mr Peter Cooke who will co-ordinate the Bank's supervisory effort on the international level with other central banks.

Mr Eddie George, who runs the home finance division and will be responsible for the gilt-edged markets in which many banks will be market-makers.

Mr David Walker, who is playing a key part in organising the securities side of the City Revolution and is chairman of Johnson-Matthews Bankers.

The new committee's job will not merely be to prevent a new JMB crisis. Its main task will be to address the difficult question of how to supervise the multi-faceted groupings, (all dominated by banks but consisting of stockbrokers and jobbers too), which are emerging from the City Revolution.

The committee will ensure that all the strands of the Bank's supervisory activities do meet up at the top. By keeping in close contact with other regulatory agencies like the Stock Exchange and the Department of Trade and Industry, it will also try to prevent any of the groupings slipping through the supervisory net.

The Bank's legitimate worry is that the banks' fast-growing non-banking activities, particularly as dealers in the financial markets, must be supervised too because of the risk that they could suffer losses and damage the parent.

The Bank has already said that it wants dealing subsidiaries to be insulated from their parents and separately capitalised. But the parents will also be expected to give them full support.

A further task for the committee will be to formulate changes to UK banking law and regulation to beef up the supervisory effort. The Bank has already circulated several proposals for comment, and wants to get a White Paper ready by the end of this year so that a new law can be enacted next year. By and large these have been well-received by bankers and professions like the accountants, though there will be some horse-trading over details in the meetings scheduled for the weeks ahead.

The main proposals are: Ending the distinction between recognised banks and licensed deposit-takers. Although banks are not happy that deposit-takers should be allowed to call themselves banks, this proposal is likely to

go ahead and will result in all banks being subjected to the same amount of scrutiny.

The Bank to have more powers to obtain information from banks.

Enhanced deposit protection scheme.

Tougher limits on loan concentration. All exposures to the same or related borrowers over 10 per cent of capital to be reported to the Bank, and an absolute limit set at 25 per cent. (Previously 10 per cent was just a guideline.) These are tougher limits than exist in many other countries. But banks seem ready to accept them, if only because not to would imply that they

Bank is determined not to yield on this point since it wants to be able to consult a bank's auditors when it has lost confidence in its management, though it insists it would only use this power in highly exceptional cases. Generally, it would be a dialogue between the Bank, a bank and its auditors. Many other countries permit and encourage these contacts.

The Bank of England has also been getting to grips with the growing problem of off-balance sheet risk: the assumption by banks of contingent liabilities such as guarantees, underwriting commitments and letters of credit which earn fees but do

not involve the bank in any way. Investigation into the whole problem which is likely to result in more detailed regulation in the next few months.

To reinforce the message, Mr Leigh-Pemberton has just sent a letter to the banks reminding them to keep off balance sheet business under control. It was part of an internationally co-ordinated effort by supervisors to tackle the matter.

However, there are limits to how far the UK can go until other countries, notably the U.S., have taken similar steps, because it may only end up putting UK banks at a competitive disadvantage, and drive this internationally mobile business to more lightly regulated centres.

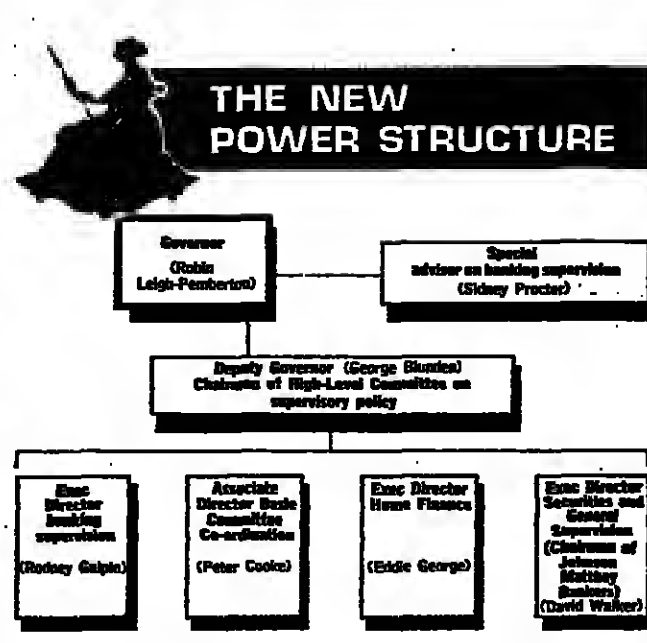
Slow and methodical it may be, but the Bank is going through what must amount to its biggest review of supervision ever. To cope with the extra work, the supervision department is being increased in size from around 100 to 120 next year.

The result is bound to be a more cumbersome process of supervision, with more bureaucrats, forms and regulations, and a noticeable shift away from the light touch the Bank preferred to use before, with both good and bad results.

One of the Bank's concerns in shaping its new policies, however, is to maintain and enhance London's standing as an international centre. Historically, part of its appeal has been the sophistication of its supervisory system, which contrasts favourably with the heavy-handed approach of many other countries.

But London's standing also depends on the confidence it inspires in the international financial community. The growing size and complexity of banking is forcing the Bank to tighten and enforce its rule book, even if this goes against its nature.

Again, Mr McMahon touched on this in his speech. Supervisors should be guided by two concerns, he said. "First of all those active in the industry are in fact subject to supervision but not overburdened by an excess of it; second, that the standards applied by different supervisors do not introduce unreasonable barriers to competition, or confer on particular types of institution an unfair competitive advantage. As banks often remind us, there need to be level playing fields."



had breached them. The issues here are what exactly constitutes "exposure" in the new-fangled world, and how specialist banks specifically set up to lend to particular businesses or countries should be treated.

Greater role for bank auditors in the supervision process, including the possibility of dialogue between the Bank and a bank's auditors. By far the most controversial proposal. Bankers fear that the Bank will talk to their auditors without their knowledge; some accountancy firms have expressed unease about this too. But the

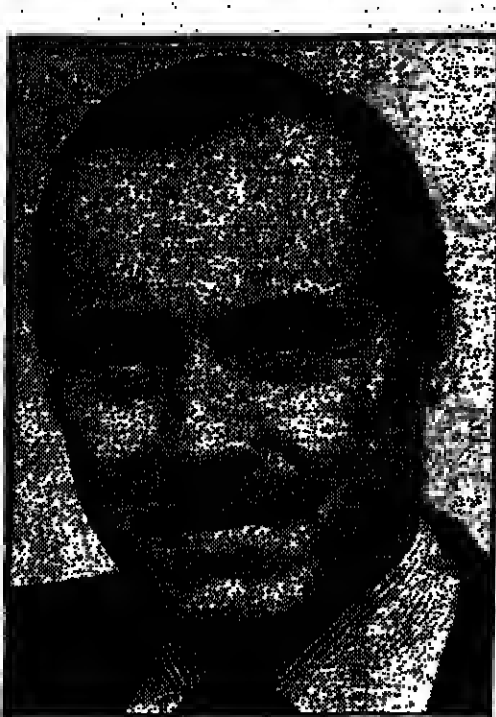
not come on to the balance sheet until called, or something goes wrong.

Although few figures for UK bank exposure have emerged, U.S. banks are known to have off balance sheet commitments which are double the size of their actual balance sheets, and represent a massive potential call on their capital.

Last spring, the Bank remodelled UK banks that they must give such contingent liabilities a 0.5 weighting (allocate half the amount of capital needed for a full loan). But it also embarked on a lengthy in-



Mr Peter Cooke (above) is to co-ordinate efforts on an international level, and Mr Rodney Galpin (below) has overall responsibility for banks



Mr Eddie George (above) will be responsible for the gilt edged markets, while Mr David Walker (below) is taking a central role in organising the securities side of the City Revolution



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UK BANKING 9

Ombudsman should boost customer confidence



IT WAS a unique employment opportunity for anyone who saw the ads — and more than 200 people did. Wanted, qualified applicants for the post of Banking Ombudsman.

Following the encouraging example of the insurance industry, British banks are in the process of setting up an Ombudsman of their own to investigate complaints from the public. Although he will be completely independent, the banks hope this initiative will polish up their public image, which gets easily tarnished over such sensitive matters as people's private financial affairs.

The Ombudsman is to be appointed by a council consisting of a chairman, three banking members and three independent members, to whom he will also be responsible. The

chairman is Dame Mary Donaldson, the energetic former Lord Mayor of London, who said her job was to see that "the scales of justice are not weighted one way or another."

When the members are chosen, the Council's first job will be to sift through a short list of candidates, and make a choice in time to enable him or her to start work next January. For obvious reasons he cannot be a banker. Most likely, the banks believe, he will be a lawyer, preferably endowed with a good deal of energy and patience.

The Ombudsman's job will be to resolve disputes between customers and their banks, but only after all existing procedures for dealing with complaints have been exhausted. The official will have the power

to make awards up to £50,000, though if a customer decides not to accept the decision he or she can still pursue the matter in the courts.

Any disputes arising from personal banking services will be covered — except the commercial reasons behind bank lending decisions, so no one can complain that they did not get a loan if they were a poor credit risk.

The important point about the Ombudsman is that he should boost confidence in the banks at a time when they are fighting an increasingly competitive battle against newcomers in their traditional markets, and being forced to alter their services or practices in ways which could upset long-standing relationships with their customers.

David Lascelles

Big Bang will squeeze profits

Fund Management

CLIVE WOLMAN

THE merchant banks are estimated to have quadrupled their profits from investment management over the past six years as the funds under their management grew at a compound rate of between 25 and 30 per cent per year.

But next year's introduction of negotiated stock market commissions and the mergers of banks, stockbrokers and jobbers will upset the traditional methods of conducting an investment management service and is likely to mean a squeeze on profitability.

One immediate effect will be the removal of a major source of revenue for the managers of pension fund money, their share of the stockbroking commissions paid by their clients.

Fund managers at present are able to lump together all their deals in the same stock over a three month period and reap the benefit for themselves of the lower commission rate for large deals.

On some estimates, this practice, called continuation, generates as much, if not more, revenue than the explicit management fees charged to pension funds, which average about 0.1 per cent of assets under management per year. Further revenue is generated by commission-sharing on dealing in overseas stocks.

An "industry" of consultants of the fund managers has already led some investment managers, for example, Barclays, to pass on the benefits to clients and charge higher explicit fees. This is likely to become standard practice from next autumn when at least the largest clients are likely to dictate at what commission rate they expect to deal. Some form of commission-sharing, however, may continue to be imposed on the smaller clients, particularly local authority pension funds which dislike paying explicit fees.

But it may often be difficult for fund managers to raise their explicit fees sufficiently to compensate. Competition between fund managers is intensifying for several reasons.

Firstly pension fund assets

higher. And the corollary to the U.S. pension fund business won by UK merchant banks, particularly Morgan Grenfell, over the past four years is likely to be increasing competition in the UK market from U.S. investment houses.

In both the UK and U.S. markets, there has been growing scepticism about the performance claims of fund managers. This has led to a resurgence in the past year of passively managed and low charging stock market index-tracking funds in the U.S. — and their emergence in the UK.

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An increasing awareness among trustees and consultants of the benefits of continuation has led some investment managers to pass on benefits to clients and charge higher explicit fees.

growth, which has been dramatic over the past 20 years, is expected to slow by the end of the decade as many pension funds reach maturity, although the proposed abolition of the State Earnings Related Pension Scheme may postpone this development for another five years.

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Debate centres on beefing up subsidies

Export Finance

CHRISTIAN TYLER

THE export finance scene has been dominated this year by an essentially political row between government and industry, in which the banks themselves have played only a minor part.

Not even the continuing financial travails of the Export Credits Guarantee Department, whose figures have improved recently but whose internal affairs are still under scrutiny, have aroused such interest.

Nevertheless the future of the ECGD's loss-making services — notably of the comprehensive bank guarantee schemes — does matter to many smaller exporters and their financial advisers. The signs are for the present that industry is winning its case for keeping ECGD services relatively intact.

Industry, or more precisely the top dozen or so contracting and consultancy firms who depend on project work in difficult markets, has had some success too in forcing the Government's hand on the issue of subsidised finance.

It is unlikely that the Prime Minister needs much persuading to beef up the competitive chance of Great Britain Limited. Her own foreign tours this year to South East Asia and more recently to the Middle East have had a strong commercial flavour.

But British does not have, like Jordan, a state mechanism for the aggressive pursuit of foreign business, and neither Whitehall nor the Government is particularly keen to use public funds to "buy" business from less scrupulous competitors such as the Japanese, the French or the Italians.

This year the argument has focused on Britain's alleged failure to compete in a mixed-credit race that is undoubtedly still gathering speed as more companies fight for smaller numbers of prestigious con-



Lord Young. It became obvious during his trade mission to China in March that the Chinese were not going to order much work unless they could get soft credit.

tracts. The lives of the debate were laid down many months ago with the belated publication of a Government economists' report challenging the wisdom of matching export finance subsidies offered by competitors.

Ministers, including naturally the Treasury team, have more or less consistently argued that they will do everything to reduce credit subsidies by international agreement, but will not in the meantime expose the UK to the predatory practices of others.

Two events this year have, however, modified that stance. The first was Lord Young's trade mission to China in March when it became blindingly obvious that the Chinese were not going to order much work unless they could get soft credit.

The second event was the failure of an Anglo-American

engineering consortium to win an important contract to build roads and a second suspension bridge over the Bosphorus in Istanbul.

The feeling that Britain had been cheated out of the contract by a big Japanese soft loan caused scenes in Parliament and was strong enough to persuade the Government to intensify a review of the whole working of the aid and trade system.

One conclusion already drawn by the exporting fraternity is that Britain's historic approach to tied aid puts too much emphasis on giving money for development, and not enough on sweetening financial packages to support price-competitive and technically proficient bids.

And yet the UK is estimated by the OECD (the Organisation for Economic Co-operation and Development) to account for

nearly a quarter of all the "associated financing" undertaken by OECD member countries, a figure that does not suggest shyness or scruples.

Nevertheless, ministers are revising the system with three aims in mind: to speed up the system in Whitehall for giving approval for Government aid; to add China, Indonesia and possibly others to the list of countries eligible for soft loans; and to spread a given sum of aid money over a larger number of contracts.

At the same time, the historic principle of matching other governments' inducements but not initiating a soft loan contest over any one bid, has already been modified for certain markets, especially in South-East Asia, where mixed credits have become a *vis à vis* of successful bidding. That principle may be modified further.

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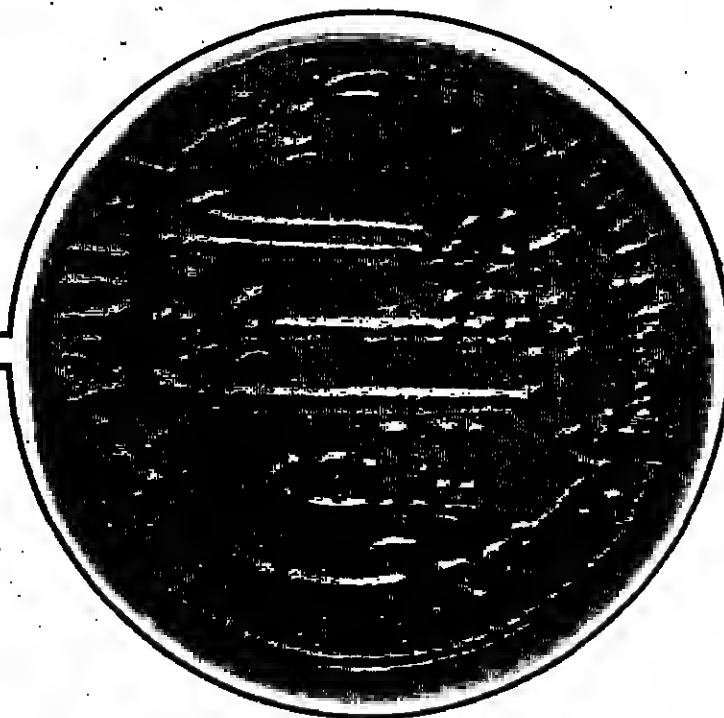
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UK BANKING 10



Left: Lloyds Bank headquarters in California. Right: Barclays Bank branch in Chicago's business district

Rapid growth will be hard to sustain

Overseas Earnings

GEORGE GRAHAM

THE CITY has had cause to congratulate itself in recent years on its contribution to the UK's balance of payments. Financial institutions' overseas earnings climbed by 14 per cent in 1984 to over £6bn, two thirds of total invisible earnings.

Behind the cloak of invisibility, however, there lurks a still more remarkable performance by the UK banks. In the last five years they have raced ahead while insurance companies—previously the largest source of invisible exports—have barely kept pace with inflation in their contribution to the balance of payments.

Over the last five years, the UK banking sector's foreign earnings have grown at an annual rate of 83 per cent to reach a total of £2.3bn last year. Although this breakneck speed will be hard to sustain, banking has still kept up an annual growth rate of 35 per cent over the last two years.

Will the banks be able to hold their position in this arena, a position built in the early 1970s against the background of oil shocks, volatile interest and exchange rates and changes in the pattern of wealth holding around the world? The answer is viewed

as doubtful by many, such as Mr Kit McMahon, Deputy Governor of the Bank of England who is shortly to take over the chairmanship of the Midland Bank.

"The evidence so far suggests that bank lending is unlikely to regain the dominant role it played in the 1970s, at least over the next few years, with economic circumstances now tending to favour securitised flows and the securities industry itself becoming increasingly competitive," he told a Swiss banking conference last month.

The banks themselves have already moved some way in meeting this new environment. Securitised lending, which has now replaced traditional foreign currency lending as a source of overseas earnings. Last year, income on the UK banks' securities portfolios topped £1.4bn, while net interest on traditional loans remained stagnant at £577m.

Until 1983 the securities element of banks' earnings was relatively insignificant, trailing traditional interest and earnings for financial services in size. But overseas earnings remain vulnerable to a host of problems, which may never materialise but which still loom over the British clearing banks, and demand evasive action.

The first is that of currency fluctuations. In recent years, the decline of the pound against other currencies—especially the dollar—has had the effect of increasing the sterling value of earnings from lending denomina-

ted in other currencies. In 1984 this factor may have increased the apparent growth in bank invisible exports by as much as 5 per cent, while in the previous year the effect may have been 8 per cent.

Concerted action by the world's major trading nations to bring down the value of the dollar—agreed on last month by finance ministers of the Group of Five at a meeting in Washington—could reverse this effect in coming years and reduce the apparent value of banks' invisible exports.

A second concern is that deflation, particularly with respect to oil and commodity prices, will lead to corporate default on international loans. "High real interest rates will almost certainly have the effect of sustaining high bad debt charges," commented one leading London stockbroker. "But more serious by far is the potential for large losses from energy and mineral loans. As oil and commodity prices decline, so will the value of the security held by the bank against resource based lendings."

This worry will weigh against the overseas subsidiaries of the London clearing banks, many of which have a history of making life difficult for their parents. Midland Bank's Crocker subsidiary in California is only the most traumatic of these experiences.

Finally, debt exposure in problem countries around the world threatens UK banks earnings in

the coming years. While the more sensational debt crises of Latin America may now have passed, there remain serious difficulties.

Falling oil prices and the recent earthquake have put Mexico's rescheduling package in debt already, while it is by no means certain yet whether the Argentinian debt agreement will succeed.

Some brokers have recently calculated that a 20 per cent specific provision against Mexican loan exposure would put Midland into the red, and would cut the earnings per share of the other Big Four banks by between 20 per cent and 40 per cent.

South Africa adds to these difficulties. Banks' cross-border exposure to South Africa totalled \$618m at the end of 1984, according to Bank of England statistics, but some London brokers have recently argued that banks such as Barclays and Standard Chartered are more vulnerable than these figures suggest.

Nor do the difficulties end there. Barclays made specific provisions of \$68m in Hong Kong for its 1984 accounts, a reminder of the extent of the London clearing banks' exposure in the Pacific Basin countries.

These factors make the future seem more uncertain for overseas earnings. But although the dizzy growth rate of the past five years may be over, the banks still seem set to make a major contribution to the UK's invisible earnings.

Overseas earnings of UK Financial Institutions

(£M)

BANKING (Monetary sector and miscellaneous financial institutions)												
Credits												
Financial (including intra-company) services	150	188	257	318	357	417	480	573	723	824	952	
Direct investment income from overseas subsidiaries, branches, etc.	93	118	131	189	190	231	350	452	500	267	64	
Portfolio investment due income	—	10	10	20	40	58	80	200	350	839	1,130	
Interest and discount on:												
Export credit	132	147	168	182	149	206	390	424	560	717	811	
Other lending in foreign currencies	2,983	3,734	4,223	4,731	6,179	9,288	15,281	27,538	33,524	29,639	33,527	
Other lending in sterling	144	159	214	157	198	270	474	872	1,158	1,308	1,737	
TOTAL	3,502	4,358	5,203	5,497	7,113	10,522	17,035	30,059	37,015	32,594	40,511	
Debits												
Direct investment income due to and services rendered by overseas affiliates	142	194	257	282	272	293	348	472	754	746	866	
Interest on borrowing in foreign currencies	2,833	3,697	4,222	4,643	5,732	9,397	15,058	26,912	33,075	29,064	34,950	
Interest on borrowing in sterling	347	354	341	308	343	730	1,203	1,528	1,899	2,060	2,817	
TOTAL	3,322	4,155	4,820	5,233	6,488	10,410	16,609	28,913	35,728	31,860	38,172	
Net earnings by UK banking institutions	180	201	383	264	625	112	426	1,146	1,287	1,734	2,339	



Mr Charles M Winter

Profile: Royal Bank of Scotland

Merger makes for strength

AT LEAST three banks vie for the title of "the fifth force in UK banking" after the big four: the Royal Bank of Scotland, Standard Chartered and the Trustee Savings Bank.

Charles Winter has little doubt which qualifies best: he is the new chief executive of the Royal Bank.

The Royal Bank's claims have just been strengthened by the complete merger into the group of Williams and Clyn's Bank, the Royal's English subsidiary which operated as a separate bank until the end of September. The result is a single group which spans the UK and the Channel Islands.

The idea was to make a sum that was greater than its parts, and enable the Royal to display the muscle of a combined balance sheet rather than having it split in two. The use of a single name is also expected to be an advantage.

The combined group has assets of £13.5bn and some 850 branches, which puts it well behind the smallest of the big four, Lloyds. But the bank's net work is evenly distributed all round Britain, making it the only one that could truly be described as national. "We're unique in offering a banking service to the whole of Britain, north and south of the border," says Mr Winter, an energetic Scot who divides his time between Edinburgh and London.

The merger was a huge operation that took a special Parliamentary Bill and two years to accomplish. A publicity blitz was launched in the run-up to September to get the message across and assure Royal Bank customers, particularly those of Williams and Clyn's who would see their bank "disappear," that there was nothing to fear.

Mr Winter says he received 200 letters from customers, only one of which was in outright opposition. The reorganisation has included changing hundreds of signs, and installing sophisticated new communications equipment between the bank's London and Edinburgh offices. The Royal was one of the first customers for a new teleconferencing service offered by British Telecom which enables people in the two centres to converse on a closed TV circuit.

But now that the merger is through, Mr Winter's task is to reap the benefits as quickly as possible. He expects to "thin down" the bank's Scottish branch network a bit ("we're very overbanked in Scotland") and add some branches in the UK to build up business south of the border.

Even in its enlarged form, he does not believe the group can offer a full service to the whole banking market. So the Royal's strategy will be aimed at the retail and smaller business market. The group also intends to widen the range of services on offer by drawing on subsidiaries like the recently acquired Charterhouse Japbet merchant bank, and its newly launched insurance company in Croydon.

"There are other gleams in our eye," said Mr Winter. "I think there's still a lot to go for in the UK."

The group plans a modest expansion internationally, focusing mainly on North America and the Pacific rim.

For Mr Winter, the merger is the culmination of a career which began in 1949 when he joined the Royal Bank in Dundee. On October 1, he succeeded Mr Sidney Procter who had overseen the whole operation and now moves on to become an adviser to the Governor of the Bank of England.

David Lascelles

Advantages reflected in steady expansion

Foreign Banks

MICHAEL BLANDEN

THE revolutionary changes taking place in the City of London's financial services industry are having a marked effect in enhancing its already considerable attractions as a centre for international banking activities for foreign banks.

Already dominant in areas such as the Eurocurrency markets, London is proving active in the development of the current rash of new instruments such as futures and options, allowing banks and other organisations to hedge their currency and interest rate exposures, and the new techniques of borrowing such as note insurance facilities and revolving underwriting facilities.

Moreover, as the City gears up towards next year's "Big Bang" on the Stock Exchange, it is being clearly understood that London has the potential to become one of three major centres (with New York and Tokyo) in a worldwide system of trading in international equities and securities. In the global village of banking, round-the-clock trading will be the norm.

The advantages of London as an international financial centre have been well rehearsed. They include its position in a time zone overlapping at each end of the day with the U.S. and the Far East; having as the native language English, the language of international banking; a liberal and sympathetic system of banking supervision which tends to encourage rather than to dampen innovation; and, perhaps most important, a large and experienced pool of banking and dealing talent.

These advantages have been reflected in the size and the steady growth of the foreign banking community in London. The magazine *The Banker* has been charting their development for nearly 20 years now; although there have been some goings as well as comings during that period, the overall numbers have never so far shown a decline. In 1987, a total of 46 foreign banks had direct representation in one kind or another, whether through branches, subsidiaries or, in many cases, modest representative offices.

By last year, The Banker counted 403 foreign banks represented directly in London. Of these 236 had full branches, another 29 operated through subsidiaries, while 138 had representative offices. A considerable number had more than one type of operation; quite a few of the American banks had merchant banking subsidiaries as well as branches, and in some cases also located their European headquarters in London.

On top of this, there were another 67 foreign banks, without other forms of representation, which participated in one or another of the 27 consortium or joint venture banking operations in the City.

A preliminary look at the returns for this year indicates that the foreign banking community will show further expansion. There have been signs recently, though, of a slowing of the rate of growth of the foreign bank numbers.

One reason may be the greater caution evident in international banking as a result of the difficulties of the past few years. There have been a few departures. They include, for example, a couple of Argentinian banks (though one Argentinian, which in the previous year had allowed its London office to remain dormant, has now reactivated it).

Perhaps most prominently they include the U.S. West Coast bank Wells Fargo, one of the world's top 100—it ranked

at number 79 in this year's listing of the world's Top 500 banks published by *The Banker*. Previously, the bank had a substantial branch operation in London with some 75 people. Now it has taken the view that it should concentrate its energies on its natural Pacific outlook and draw in its horns elsewhere.

It is perhaps inevitable, however, that the rate of growth of foreign banks in London should begin to tail off a little, because by now the number of banks of a size and type of business likely to justify international ambitions which are still absent from the City is relatively limited.

With the arrival last year of Credit Agricole, the French "green bank," all but one of the world's top 100 were present. This year the absentee, Norinchon, the Japanese equivalent of Credit Agricole, has arrived on the scene—though the departure of Wells Fargo still leaves a gap.

In any case, the growth of the foreign banking community has tended over the years to go in waves, partly relating to the climate in international banking. The big boom came in the early 1970s when the Eurocurrency markets were expanding rapidly, and the American banks, including a considerable

and they are substantial employers; at the last count foreign banks and securities houses together employed nearly 40,000 people in London.

Concern has been expressed that the relative attractions of London might be dwindling. Reasons cited include a possible tightening of regulatory constraints as the UK authorities come to grips with the aftermath of the Johnson Matthey Bankers collapse and rescue and, more important, the implications of the City revolution: the costs of operating in London—not merely high rents but other overheads such as rates, salaries and employee benefits; and the rival attractions of the international banking facilities in the U.S.

Yet there is little sign that at least the big international players are finding London any less attractive or essential. They have plunged with some enthusiasm (and well filled pockets) into the new developments in the City markets.

A number of foreign banks have paid good money for stakes in the revolution. They include, for example, Australia and New Zealand Bank (Capel-Cure Myers as well as Crindlays), Banque Arabe et Internationale d'Investissement (Shapoorji & Chase), Chase Manhattan (Laurie Milbank and Simon & Coates), Citicorp (Scrimgeour Vickers), Crédit Suisse (Buckmaster & Moore), Hongkong & Shanghai Banking (James Capel), North Carolina Bank (Pannunella Geronzi) and Royal Bank of Canada (Kitchat & Aitken).

This list is not exhaustive. And others have, with equal determination, taken the different route of buying in or building up their own talent—the prices being paid to recruit certain types of specialised experience in the City have become legendary. And there is some evidence of business being switched away from other centres. In particular, the German and Swiss banks, which in the past have often tended to use Luxembourg as an international banking centre, seem to be having some second thoughts. Deutsche Bank, for example, switched Eurobond business to London while the Swiss Volksbank has an upgraded its London operation to a full branch and moved its capital market trading from Luxembourg.

There is clearly an interest on the part of the UK authorities in maintaining London's international strength. It is clear also, though, that the developments in the banking markets and the City revolution are posing problems for regulators—Mr Peter Cooke of the Bank of England recently described the symptoms of "supervisors' twitch."

One point which is of particular relevance to foreign banks, though, is the issue of reciprocity in financial services and mutual access to each other's markets. If London is to remain open, the UK authorities have an interest in pressing as far as possible for equal access for British institutions elsewhere.

There has, for example, been an argument going on over this issue between London and Tokyo, with the Bank of England reluctant for various reasons to accede to the desire of the big four Japanese securities houses to acquire banking licences in Britain. Trying to create a "level playing field" may be one of the important preoccupations of Mr Cooke as he now concentrates his energies on the international aspects of banking supervision.

One point which is of particular relevance is that of reciprocity as regards access to markets

number of regional institutions, were moving substantially on to the international scene—there are some 70 U.S. banks in London. There was a further wave in 1977-78.

Recently, the pattern has changed. With effectively all the leading international banks already represented, growth has come from other directions. It has included a number of more specialised institutions which had previously not aspired to significant international activities. Some of them, like Crédit Agricole, are very large.

The arrivals have included a wide spread of banks from some of the developing countries, either because they need to borrow or they want to be able to provide a service to their expanding domestic clientele. And they have included smaller banks from a number of countries such as Japan and Scandinavia which have now begun to develop international aspirations.

The presence of the foreign banks has made a substantial contribution both to the City's international strength, and more generally to the development of the British banking market. Their competition has undoubtedly helped to shake up the domestic banking sector and to encourage greater efficiency.

The foreign banks are substantial and often aggressive lenders, accounting with the consortium banks for over a fifth of UK lending in sterling and for more than 70 per cent of lending in foreign currencies

Foreign banks market share

	Sterling		£ million		Currency	
	Deposits (%)	Advances (%)	Deposits (%)	Advances (%)	Deposits (%)	Advances (%)
U.S. banks	12.982 (6.4)	7.808 (6.2)	83,810 (17.6)	24,091 (20.1)		
Japanese banks	10.599 (5.2)	3.978 (3.1)	151,721 (31.9)	23,521 (19.6)		
Other foreign	28.937 (14.3)	14.091 (11.2)	140,592 (29.6)	35,652 (29.7)		
Consortium banks	1.840 (0.9)	684 (0.5)	13,385 (2.8)	6,209 (2.7)		
	54,388 (26.8)	28,164 (21.0)	389,510 (81.9)	86,473 (72.1)		

Figures in brackets are percentages of the total for all British banks

Source: Bank of England, Quarterly Bulletin, (August 21 1985)

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UK BANKING 11

Radical change fires uncertainty

Gilt-Edged Market
JOHN MOORE

"ON OUR assessment of the market, the figures look reasonable. Markets are not independent any more, they are interdependent as far as capital flows are concerned. We have to participate." — U.S. investment banker.

The gilt market is going to be a bit of a blood bath. Whether the volume of trade increases sufficiently for the new participants remains to be seen. — British broker.

The two views reflect the uncertainty surrounding the future of the British Government securities market which is undergoing its most radical series of structural changes for years. These changes have been precipitated by the revolution taking place in London's financial community.

Following the deal between the British Government and the Stock Exchange over the future operation of the securities market in London in 1983, in which minimum sales of commission were to be dismantled on securities transactions by the end of 1985, potential commercial pressures forced British securities firms to look for outside capital.

Numerous British firms forged links with outside groups, with a view to eventual merger, major overseas groups strengthened their grip on the financial community in London.

This in turn led to other changes. The system in London in which brokers could act only as agents and market makers or jobbers could not only as principals, was forced to change. Competitive pressures loomed in order to compete the Stock Exchange concluded that a single capacity market was no longer supportable, given the new competitive pressures.

The Stock Exchange decided that single capacity would disappear at the same time as minimum commissions were dismantled—scheduled for the autumn of 1986.

In the early stages of the financial services revolution two existing firms of market makers in British Government securities

Wadd Durlacher Mordant and Akroyd & Smithers, with around 40 per cent of the market each, formed outside links. Wadd Durlacher is to merge with Barclays Bank, while Akroyd & Smithers is merging with Mercury International, the parent company of S. G. Warburg, the merchant bank. Mercury is also grouping into its securities operations two stock brokers, Mullens and Rowe & Pitman.

A market dominated by just two market makers with several smaller firms operating to a much lesser extent is now to be

given the number of participants. At Dresel Burnham Lambert, Mr Roger Joseph, a senior executive vice president said: "In view of the size of the total market, the number of players, the competitive aspect, and the capital and investment that it calls for, we had to make a judgment. It appears not to represent an adequate return on our proposed investment."

To operate in dealing in British Government securities—the gilt-edged market—the potential market makers will have to be members of the

A market dominated by just two market makers with several firms operating to a much lesser extent is to be transformed by the participation of 29 market makers

transformed by the participation of 29 market makers in British Government securities, with at least 10 major U.S. investment and financial groups playing a key role.

Understandably there is considerable nervousness about the new structure. Most potential market makers agree that there will be too many participants. Mr John Barshire, chairman of Mercantile House, which has built a gilt-edged primary dealer called Alexander's Laing & Crickbank out of discount house and stockbroking components said recently: "For the first three years it is going to be very unprofitable business to be in."

Others like Schroders, the British merchant bank, and Dresel Burnham Lambert, the U.S. securities house, after initial interest decided not to become dealers in the new market.

Mr Win Bischoff, chairman of Schroders, said at the time the Bank of England announced the new participants, in June this year, that he had hoped there would be half the number of participants. "We went in originally on certain assumptions. But we do not believe we can meet these assumptions

Stock Exchange to ensure that regulatory controls can be maintained.

According to the Stock Exchange, gilt-edged market makers are to be separately established as companies or partnerships with dedicated sterling capital in the UK. They will be expected to deal only in sterling fixed interest, floating-rate or index-linked securities and sterling money market instruments. Market makers can operate within a securities group and share in its common services and personnel in a cost effective manner.

Other entities will form part of the gilt-edged structure. A new form of intermediary, familiar in the U.S. securities market, is to be introduced in the UK and allowed to operate by the Bank of England. This is the inter-dealer broker.

The inter-dealer broker will provide dealing facilities between the market makers in British Government securities. Their activities will be confined to inter-dealing in money market instruments and money broking. They will have to be separately capitalised entities and the management and staff will have to be separated from that of other entities within a securities group. This is

designed to ensure that conflicts of interest are avoided.

Six inter-dealer brokers intend to participate in the new market, and again the potential competitive pressure have led others to withdraw before they even put in their application for approval.

R. P. Martin, a money broker which was intending to apply for inter-dealer broking status in the new market, said that it had decided not to submit a formal application to the Bank of England. "It is going to be a crowded market," they said at the time of the announcement of the future participants in August this year. "There will be room for only a few players and we wish them the best of luck. We looked at the situation very carefully, but we decided that it was not worth walking the tight rope."

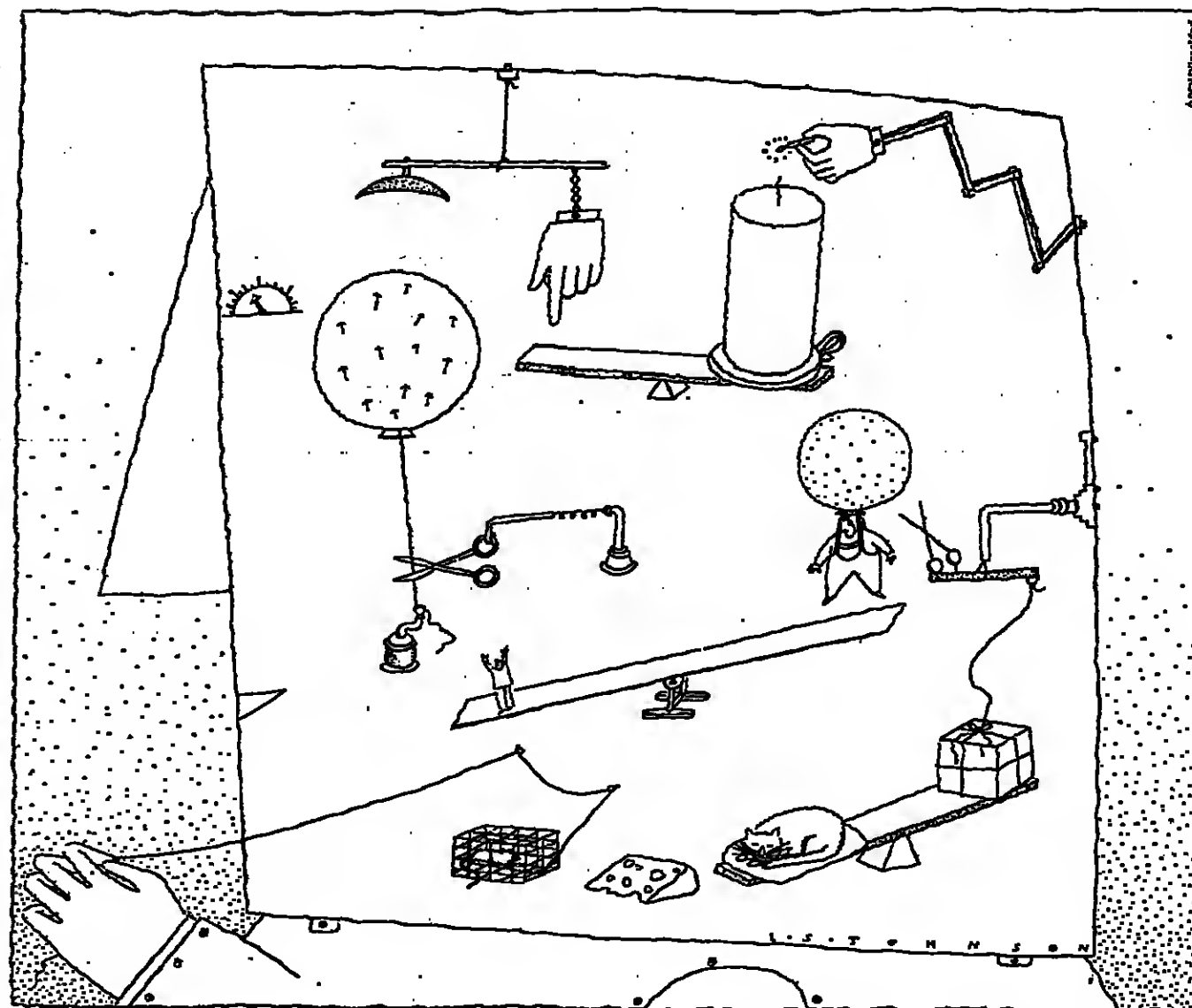
Other inter-dealer brokers feel that the market will only be able to support four dealers at most.

The other components of the British Government securities market are the Stock Exchange money brokers. In the new market there are to be nine participants. Stock Exchange money brokers will be intermediaries for regulated stock borrowing and lending to facilitate liquidity in the gilt-edged market and other securities and they, like all the other participants in the new market, have had to demonstrate a future demand for their services in their applications to the Bank of England.

Moreover, the Bank appears to be relaxed about ownership of Stock Exchange money brokers with a market maker or a new integrated securities firm offering both agency and principal services.

In spite of the fears that there will be a bloodbath in the market, the Stock Exchange and the Government are reluctant to intervene in curbing the number of participants in the new gilt-edged market. They prefer that market forces take their toll and establish the right number.

However, as one British banker observed: "What they do not realise is that it is highly unlikely that firms will withdraw once they have got a place, as it will mean the much of other entities within a securities group. This is



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GILT MARKET PARTICIPANTS

THE MARKET MAKERS
Wadd Durlacher Mordant
(Gilt).
Akroyd, Rowe & Pitman,
Mullens & Co.
Alexander's Laing & Crickbank.
Bank of America.
Barclays de Zoete Wadd.
Barling, Wilson & Watford.
BT Gilt.
Cater Allen Holdings.
Chase, Laurie & Simon.
Citicorp Securities Group.
Countrywide Group (National Westminster Bank).
CSFB (Gilt).

Gerrard & National.
Gerrard & National Government Securities (UK).
Greenwell Mortgage Gilt-Edged.
Hill Samuel Wood Mackenzie (Sterling Debt).
Hoare, Govett Sterling Bonds.
James Capel Gilt.
Kleinwort, Greaveson, Charlesworth.
Lloyds Bank Group.
Merrill Lynch, Giles & Co.
Morgan Grenfell Government Securities.
Morgan Grenfell Government Securities.

Morgan Guaranty Gilt.
Oyster Royal Bank/Gilt & Finance.
Phillips & Drew Montvale.
Joint venture between Prudential-Bach and Clive Discount.
Salomon Brothers UK.
Union Discount Securities.
THE INTER-DEALER BROKERS
Charles Fulton (IDB).
Garban Gilt.
Hawes, Nye & International (Gilt).
Fundamental & Marshall Brokers.

Talbot and Tokyo (Gilt).
Williams, Cooke, Lott and Elcock.
STOCK EXCHANGE MONEY BROKERS
Cazenove Money Brokers.
Hoare Govett (Money Broking).
James Capel Money Broking.
King & Shazson (Securities).
Lazard Brothers & Co. (Money Broking).
P.B. Securities Money Broking.
Rothschild & Sons Money Broking.
Sheppard Money Broking.

Corsetry removed layer by layer

Discount Houses
JOHN MAKINSON

IF ANY corner of the City of London has retained a reputation for short working days, long lunches and imperviousness to change, it is the London discount market.

The market itself has never been sure whether to cultivate or resent that image. The formal and constraining relationship between the Bank of England and the discount houses has discouraged entrepreneurialism within the market while providing the houses—over time—with a secure enough livelihood.

But the Bank's corsetry is now being removed layer by layer, leaving the market with unimagined opportunities and a vulnerability with which it is by no means familiar.

A cosy relationship has until now suited both the Bank and the discount houses. Rather than deal directly with the banking system, the Bank has preferred to buy and sell bills through the discount market which is, because of the relatively small size of its members, thoroughly dependent on the Bank for its livelihood.

The houses have therefore been obliged to deal with the Bank on its own terms, in return for which the Bank has granted the houses various privileges—notably exclusive access to its "discount window" and a tacit guarantee that struggling houses will be supported.

That relationship will not change overnight. For the time being, at least, the Bank will have direct dealings only with the discount houses and will lend support. But, just as the Bank's relationship with the gilt-edged jobbers is being recast by the introduction of gilt-edged jobbers, the relationship with the discount houses is being recast by the introduction of

gilt-edged market-makers, so the move towards a fixed-interest market modelled on U.S. lines will erode the privileged status of the discount houses.

The distinction between short-term money market instruments and Government bonds becomes more blurred, the Bank will permit the discount houses to become active in the term markets while the gilt-edged market-makers extend in the

opposite direction towards bill business.

But, while the internationalisation and deregulation of London's markets may be the prime force for change in the discount market, it is most unlikely that the houses could have carried on as before even in a regulated environment.

Over the past decade the discount market has clearly separated the men from the boys. The largest houses—Union and Gerrard & National—have grown to represent roughly 60 per cent of the market's overall capacity, while the smaller members have diversified, merged or shrunk.

The reason for this is straightforward: it is no more costly for a house to execute a single transaction of £10m. than a transaction of £100,000. Consequently, these houses which sport a capital base large enough to support the larger transactions have been more profitable than the smaller houses. This has strengthened their capital base still further and so widened the gap with the

smaller houses, which have on occasion been driven to take imprudent principal's risks in order to keep up. It was just such a risk—in the gilt-edged market—which almost destroyed Smith St. Aubyn in 1982.

The Bank has responded to the organic and environmental pressures for change by encouraging mergers and takeovers within the discount market, as well as by allowing the houses access to outside

capital (in the past they had been permitted to raise funds in the stock market only when threatened with failure or in order to fund diversification). The change of tune became evident in February last year when the Bank sanctioned the purchase for £25m of Alexander's Discount, a medium-sized house, by Mercantile House, the UK financial services group. A few months later, Mercantile added another discount house, Jessel, Toynbee & Gillett—to its collection of subsidiaries.

Since then the entry barriers have fallen thick and fast. Both Union Discount and Cater Allen have bolstered their capital bases through rights issues, while two of the smaller members have been bought by foreigners. Citicorp acquired Secombe Marshall and Camplin for £7m, while Banque Paribas bought Gerald Quin Cope for a more modest £3.1m. Prudential-Bach, meanwhile, has acquired a one-third interest in Clive Discount.

The London Discount Market Association, once 13-strong, now

counts only 10 members in its ranks, while the number of independent houses has narrowed to a handful. Union, Gerrard and Cater are probably big enough to look after themselves, but Smith St. Aubyn and King and Shazson would almost certainly look favourably on any takeover approach.

The independent houses are now formulating their strategies. Gerrard, Union and Cater have all been granted licences as gilt-edged market-makers (Gerrard first entered into a joint venture with brokers James Capel and then dropped the idea) and are reckoned to have adequate capital for the purpose.

Cater, traditionally the most adventurous of the houses, already has fund management interests and recently diversified into insurance underwriting through the acquisition of a Lloyd's agency from Sedgwick Group. Gerrard, meanwhile, has acquired control of sizeable commodity broker, Intercommodity.

Discount houses are no strangers to risk—it is impossible for them to make money when short-term interest rates are rising sharply and their earnings records are notoriously volatile—but they are visibly apprehensive about the new risks they are being asked to shoulder.

Participation in the gilt-edged market, while a natural extension of their present activities, is a mixed blessing. Compared with their larger and international competitors, they may be short of market information (particularly about dollar-based markets) and the strength of their distribution network has yet to be tested.

Diversification may help to improve the quality of earnings and provide a hedge against the consequences of rising interest rates, but it also brings the houses into unfamiliar areas of activity. The lurches, not surprisingly, are becoming shorter and the days longer.

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UK BANKING 12

City alliances

STOCKBROKER (S) OR JOBBER (J)	FINANCIAL INSTITUTION/BANK	HOLDING
Akroyd & Smithers (J)	Mercury International Group (Warburg)	29.9% (\$41m)
Akroyd & Smithers (J) + Rowe & Pitman (S) and Mullens (S)	Mercury International Group (Warburg)	Market capital of £350m
Ruckmaster & Moore	Credit Suisse	29.9%
Capel-Care Myers (S)	Grindlays Holdings	29.9% (plans 100%)
James Capel (S)	Hong Kong and Shanghai Banking Group	29.9% (£25m) (plans 100%)
County Biagood (J)	Nat West (County Bank subsidiary)	29.9%
Fielding, Newson-Smith (S)	Nat West (County Bank subsidiary)	5.0% (plans 100%)
Galloway & Pearson (S)	Exco	29.9% (plans 100%)
W. Greenwell (S)	Samuel Montagu (60%)	29.9% (plans 100%)
Grieverson Grant (S)	Kleinwort Benson	5.0% (plans 100%)
Henderson Crosthwaite (S) (Far East)	Baring Brothers	77%
Bears Govett (S)	Security Pacific	29.9% (£8.1m)

STOCKBROKER (S) OR JOBBER (J)	FINANCIAL INSTITUTION/BANK	HOLDING
Laing & Cruickshank	Mercantile House	29.9%
Laurie Milbank (S) (+ Simon & Coates)	Chase Manhattan	(£30m) (plans 100%)
L. Messel (S)	Shearson Lehman	5.0%
Montague Loeb Stanley (S)	Save & Prosper	5.0% (taking 100% later in 1986)
Fammure Gordon (S)	NCNB Corp	29.9%
Pember & Boyle (S)	Morgan Grenfell	5.0% (plans 100%)
Phillips & Drew (S)	Union Bank of Switzerland	29.9% (plans 100%)
Pinchin Denny (J)	Morgan Grenfell	29.9% (plans 100%)
Quilter Goodison (S)	Skandia	29.9%
Rowe & Pitman (S)	Mercury International Group	29.9% (£16.2m)
Sheppard & Chase (S)	BAH Group	29.9% (plans 100%)
Simon & Coates (S) (see Laurie Milbank)		29.9% (£6.5m)
Smith Brothers (J)	N. M. Rothschild (through Smith Bros)	24%
Strasse Turnbull (S)	Hambros	29.9%
Vickers de Costa (S) (merged with Scrimgeour Kemp-Gee)	Citicorp	29.9% (£20.0m) + 80% Far East
Wadd Durlacher Mordant (J)	Barclays Merchant Bank	29.9% (£50m) (plans 75%)
Wood Mackenzie (S)	Hill Samuel	29.9% (£5.5m)
de Zoete & Bevan (S)	Barclays Merchant Bank Barclays Wadd Durlacher & de Zoete	5.0% (plans 75%)

Source: Noel Alexander Associates

Profile: NatWest Investment Bank

Determined to weld tightly knit group



MR CHARLES VILLIERS, chief executive of NatWest Investment Bank (NWIB or Enwib), regards it as part of his job to ensure that UK financial groups can challenge the growing dominance of U.S. and Japanese institutions on the world markets.

And with Enwib, he leads one of the more powerful groups to have emerged from the City Revolution. Formed only a month ago by Britain's second largest clearing bank, Enwib will have capital of £300m, and will combine the capital markets, merchant banking and investment activities of the National Westminster Bank group. That includes County Bank, NatWest's merchant banking subsidiary, as well as stockbrokers Fielding Newson-Smith and Johners County Biagood which NatWest is in the process of acquiring. There will also be the gift-edged dealing operation that NatWest is forming.

Mr Villiers, who formerly headed County Bank, is determined to weld Enwib into a tightly knit group, where everybody shares "a common vision," and where the most is made of both the strength of a large clearing bank, and the entrepreneurship of an investment bank.

"We want to remain an independent, flexible operation, but co-ordinate things in a way so that we can use the muscle of the NatWest group," he says. Whether he succeeds in bridging what many have called "the culture gap" in the City will be a key to Enwib's success.

But he intends to get the best of both worlds by using the County Bank name on products which demand flair, and the NatWest name where capital weight wins through, as with the underwriting of large debt issues.

Enwib's services will be aimed largely at corporate and Government clients. But it is also intended to be the vehicle for NatWest's planned entry into the retail investment market.

Although plans are not firm at this stage, the idea is to develop a financial advisory and broking service that can be marketed to NatWest's huge customer base through its 3,000-strong branch network.

At the moment, NatWest receives hundreds of thousands

of investment inquiries and instructions from customers, but refers them all to other stockbrokers.

It could only retain a fraction of that amount for Enwib, it would be well on the way to having a sizeable stock broking business. "It will take time for people's habits to change," said Mr Villiers. "But when they do, we shall have the network in place."

Overseas, it is intended that Enwib shall be active on Japan and the U.S., though it faces regulatory hurdles in both markets because of restrictions on the combination of commercial and investment banking.

Enwib is hoping for a securities licence in Tokyo. In New York, County Bank has already lodged an application for a broking licence, hoping to exploit an apparent gap in the law.

None of this ensures that Enwib will be able to take on the large U.S. and Japanese groups, some of which will be several times its size, but its chances are better than most.

David Lascelles

Build up in tension towards Big Bang

City Revolution

BARRY RILEY

THERE is now just one year to go to the "Big Bang." The restructuring of Stock Exchange commission scales and trading systems is scheduled for sometime in October 1986. This means that the City of London is two-thirds of the way through the transition period which began when the historic deal between the Stock Exchange and Mr Cecil Parkinson was struck in the summer of 1983.

The first year of that period was dominated by the scramble for partners as the existing major broking and jobbing firms within the Stock Exchange sought links with powerful outside institutions.

Increasingly the second year has been characterised by the shifting of individual people, as firms have sought to fill gaps or as practitioners (sometimes moving in whole teams) have looked for more promising or more remunerative niches.

In the final year there is bound to be a build-up of tension as securities firms complete their reorganisations and install their new trading technology

but are unable to complete the transition to the new dual capacity trading systems.

A key date will be next April 1, when Stock Exchange member firms will be permitted to finalise their financial reconstructions (so that they can be owned as to 100 per cent by outside institutions rather than as at present). An uncomfortable six months will follow, during which there are likely to be many accusations that firms have jumped the gun.

It would be surprising if everything went absolutely smoothly, because this is a truly remarkable exercise in deregulation. The London Stock Exchange has been closed to banks for many years, but now it is being opened up to a very large number of British and foreign banks and securities houses, on condition that broadly similar opportunities are open to British firms on the various overseas capital markets—a rule that the Japanese have so far fallen foul of.

The transition from protected market to international free-for-all promises to be traumatic.

And the sheer prosperity of the London securities markets in the past few years could make the changeover still more painful. Brokers have been trading at high volumes with the con-

tinuing benefit of the fixed scale of commissions. Abruptly, in a year's time, those rates of commission will become negotiable. They will tumble, especially in the gift-edged market. But for the time being, very large profits are being made and correspondingly inflated personal incomes are being paid. Big sums are being offered to lure key personnel from one firm to another.

These payments come on top of the very large sums which have already been committed by many banks to purchase the goodwill of stock market firms, and the substantial further amounts which will be required to set them up in larger, more modern premises and install new technology.

Expressed concern

Recently the City merry-go-round was attacked by the deputy governor of the Bank of England, Mr Kit McMahon, who expressed concern that things might have "gone too far in the City transfer market." The cost base was being pushed up, and as a regulator Mr McMahon was also worried that the stability of staffing of firms was at risk.

He said: "It is worrying that a firm authorised to carry out a financial business on the basis

of a prospectus in which certain individuals are a key component can quite rapidly lose those individuals to its competitors."

However, it is arguable that the Bank of England itself has encouraged some of this bidding for the limited pool of skilled labour in the securities markets, for instance by licensing as many as 29 market makers for the new-style gift-edged market.

Most of these contenders had little or no existing capability in the gift-edged market, and although in some cases personnel could be switched from comparable operations elsewhere—such as the Eurobond market—most of them were bound to call in headhunting firms to help complete their line-ups of gift-edged traders and salesmen.

In opening up the London Stock Exchange, the British authorities have unleashed some very powerful forces. Major international banks can afford to spend sums like £50m or £100m without a great deal of concern (and indeed they have failed even to disclose the sums to their shareholders in many cases).

They usually regard such investments as long-term stake money and are not greatly concerned with the short-term

economics of their securities market operations.

There is thus a danger that the normal rules of business will not apply; that many participants in the new-style markets will be content to make losses for extended periods, and that excessive competition will not drive the weaker performers out of business. So long as they are backed by wealthy and indulgent parents.

Different tactics

In the circumstances, different banks have adopted widely different tactics. Barclays has bought heavily into two of the biggest broking and jobbing firms, but Lloyds is building a modest operation from scratch. Security Pacific and Citibank are big players in the City Revolution, but other major U.S. banks such as Manufacturers Hanover are staying well clear.

Not surprisingly, different bankers are expressing different views about the aftermath of the Big Bang. Those not at present involved in the London securities markets are happily predicting a bloodbath—and some of them, perhaps, are looking forward to being able to pick up people and firms cheaply in 1987 and later.

Banks which have paid high prices to secure a stake in the existing market place are forced, however, to take a more positive view. It will be tough to begin with, they agree, but good firms will survive and then prosper—the pattern of the New York markets after the switch to negotiable commissions there in 1973.

All of these contenders admit that a good many new groupings will in due course fall by the wayside. But each one claims that it will be among the survivors.

According to one investment banker who has been closely concerned with the City Revolution the apparently risky, free-spending approach of many banks can be explained by the Theory of the Strategic Imperative. This is the chance of a lifetime for the big British and American banks to get into the London stock market, one of the world's biggest. For regulatory reasons, the same opportunity does not exist in New York or Tokyo. The banks must jump through the window now in London, according to the theory, or run the risk that it will be slammed shut again.

Will fortune favour the brave, or those who watch and wait? In a year's time the answer will start to emerge.

FINANCIAL TIMES
SURVEYS
1986

Amongst the surveys planned for next year, it is proposed to publish the following on Banking and related subjects. These are in addition to the normal programme of surveys on Banking and Finance in particular countries.

January	INVEST IN BRITAIN
February	COUNTERTRADING
March	INTERNATIONAL CAPITAL MARKETS
April	WORLD BANKING
May	FOREIGN EXCHANGE
June	CORPORATE FINANCE
September	WORLD ECONOMY
October	UK BANKING
November	INTERNATIONAL FUND MANAGEMENT
December	EAST WEST TRADE

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

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INTERNATIONAL BONDS

Buoyant market for floaters

FLOATERS are what Eurobond investors want to buy at the moment. Issues last week in dollars, sterling, yen and D-Marks all met good receptions, and it looks likely that more deals will come this week, writes Maggie Urry in London.

It is the usual story in which investors, such as banks, find that their assets are melting away and become almost desperate to replace them with something, even lower-yielding floaters.

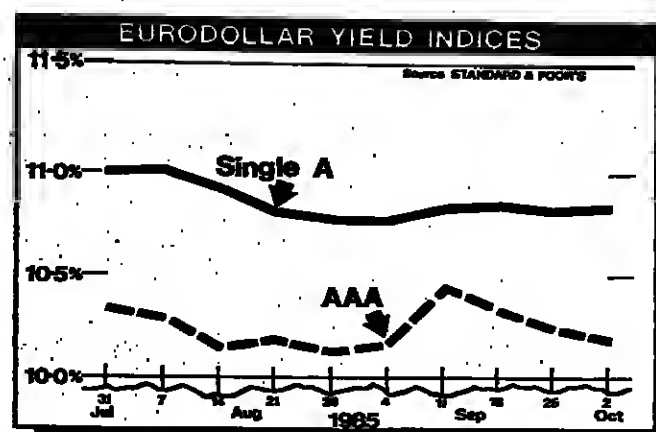
Meanwhile borrowers are awakening after the summer lull and are keen to launch deals once more. Prominent among them are U.S. banks, which are trying to improve their ratios and believe that floaters are the way to do it cheaply. Citicorp's deal last week gives the bank cheap money for 20 years, while also satisfying asset-hungry investors by allowing them to lock into a spread above London interbank offered rate (Libor).

Like Citicorp, Wells Fargo launched a deal paying interest at 22% basis points over one month London interbank bid rate (Libid). These monthly fixings could become a trend among Eurodollar borrowers who expect the yield curve to stay positive.

Credit Commercial de France has got down to a fine art the idea of floaters with warrants to buy a straight bond in another currency. It seems to be the only bank, though, which has found a counterparty for the swap on the straight bonds. As a result, CCF has had a monopoly on the issues, launching another successful one last week. It was the first to give investors a play on the D-Mark, fixing the exchange rate at DM 2.575 to the dollar.

Fixed rate Eurodollar bonds were confined to a narrow trading range last week, in tandem with the New York bond market. The outlook is even more uncertain than usual and only one deal was launched last week - for Nippon Credit Bank. Even this, despite being considered correctly priced, did not find an enthusiastic response.

Activity was seen in the recent Washington Post issue. This partly



EUROBOND TURNOVER

Turnover (\$m)

Primary Market	Secondary Market	Other	Total
U.S.\$ 1,490.0	6.3	2,376.6	132.2
Yen 2,115.3	238.0	23.8	1,115.7
Other 1,526.0	0.0	834.0	383.7
Yen 550.8	0.0	0.0	142.2

U.S.\$	Yen	Other	Total
14,970.3	1,083.3	14,082.6	2,226.5
12,980.3	1,071.1	12,852.8	1,953.3
5,577.5	74.7	1,213.7	2,045.9
5,555.5	42.8	351.1	1,039.4

Week to October 3 1985 Source: AIB

paid deal had not been going well and a number of banks appear to have gone short of the bonds. By Friday the bonds were trading well above issue price as Salomon Brothers, the lead manager, was said to be squeezing these shorts. Credit Suisse First Boston decided to withdraw from the co-management group.

The second borrower in the Euroyen floating rate market, like the first, is French. Caisse Nationale des Tabaccommis launched two yen issues on Friday - a floater led by Daiwa Europe and a straight under Nomura International's management. The floater proved the more desirable of the two and traded close to its issue price of 100.10.

Premium pricings for floaters are becoming something of a fashion in the Eurobond market as lead managers try to find new ways to pare the commissions.

In the Eurosterling market, Bank of Nova Scotia also chose a premium pricing of 100.10 for its floater with commissions at 16 basis points. The bonds traded around 100.08, reflecting good demand, and giving lead manager Samuel Montagu a reason to celebrate.

Most recent building society to come to the market is the Britannia - surely a name to appeal to European investors. As in the other deals, the first coupon cannot be

paid until April next year. However, lead manager Hambros, helped by the deal by Fulton Packshaw, announced that the first coupon would be set at a rate of 11% per cent.

That was seen as a smart move since it removes uncertainty for investors, when many are expecting interest rates to fall before the issue closes. This doubt may have deterred some investors from buying the earlier building society issues and these could pick up as their coupons are fixed. The Halifax is to fix its rate today.

Commerzbank showed how strong demand is for D-Mark floaters when its DM 500m issue, the only one scheduled for October, was trading more than 30 basis points above its par issue price.

So far the record D-Mark October calendar has not done too much damage to the market, although the two fixed rate deals were moving slowly at first. Now that borrowers' names are not revealed at the beginning of the month investors are in a quandary as to whether to buy the first issues or save themselves for deals later in the month.

Coca-Cola is a name investors love, and despite syndicate books groaning with expensive-to-fund New Zealand dollar paper, Morgan Guaranty was able to syndicate a NZ\$50m issue successfully. Australian dollar bonds are pro-

ing harder to move, and some restraint on the part of issuers is needed again. Security Pacific Australia set a new benchmark with a 14 per cent coupon for its issue and it will be a brave or foolish borrower who tries to go much below that.

In the Swiss franc foreign bond market, new issue yields are definitely descending, although the secondary market is only slightly firmer over the week. Demand has picked up and new issues are generally meeting a good reception.

Last but not least, the new Euro-ira bond market got off to a flying start with an issue for the European Investment Bank which ended the week around 99%, well inside the 1% per cent fees.

New international bond issues in the first nine months of this year totalled \$119.1bn, according to statistics compiled by the Eurobond Letter and DDD Information services. That already exceeds the amount raised in 1984. U.S. borrowers have taken close to 22 per cent of the money, with the Japanese taking 13 per cent.

The biggest single borrower was the World Bank, which raised \$9.27bn. Credit Suisse First Boston heads the league table of Eurobond book runners, while the top performing bond fund, out of 130 surveyed, is Royal Trust International, a multi-currency fund, with a nine-month return of 22.08 per cent.

German group plans listing

By Jonathan Carr in Frankfurt

FAG, Kugelfischer Georg Schaefer, the family-controlled West German concern which is one of Europe's top bearings manufacturers, plans to make its first-ever public share issue later this month.

A nominal DM 80m (\$50.7m) of the company's DM 185m basic capital will be made available in the form of bearer shares with voting rights - still leaving the Schaefer family with a comfortable majority.

No issue price has been announced, but it is felt that the shares will be aggressively priced given the general buoyancy of the stock market and the company's improved results.

FAG, Kugelfischer, founded 182 years ago, boosted world group net profits last year to DM 119m from DM 25m, on turnover up by 15.9 per cent to nearly DM 2.8bn.

Besides its key strength in making ball, roller and needle bearings, the company has been diversifying into measuring instruments and precision tools. Bertelsmann, the media concern, plans to make its long-awaited listing of "Gemscheine" (profit sharing certificates) with a nominal value of DM 330m on leading West German stock exchanges next March.

So far the certificates, held mostly by current and former employees of Bertelsmann, have been traded only within the group. They command a price of around DM 250 per certificate, and in recent years the company has been paying annual interest of up to 15 per cent.

Holders of the certificates do not have voting rights, and there is no sign that Bertelsmann will be making any full public share issue in the foreseeable future.

EURONOTES AND CREDITS

Quebec Province blazes trail with Canadian dollar MOF

THE PROVINCE of Quebec, continuing the current spate of refinancings of old loans to get the cheaper terms now available, is breaking new ground with what is believed to be the first multi-option facility (MOF) to be denominated in Canadian dollars, writes Alexander Nicoll in London.

Its C\$750m 10-year deal, replacing a loan signed in 1981 comprising C\$300m and \$250m, was launched at the weekend by the Montreal-based National Bank of Canada, with Bank of Nova Scotia and Canadian units of Bank of Tokyo, Chase Manhattan, Credit Lyonnais and Citibank.

It consists of a tender panel facility for multi-currency short-term advances and Euronotes, backed by a revolving credit providing the borrower with no less than six interest rate choices: in Canadian dollars, prime rate flat, or a quarter-point margin - rising to 1/2 after four years - over bankers' acceptances or London interbank offered rates (Libor); in U.S. dollars, prime rate or 1/2 above CD rates, rising to 1/2, or 1/2 above Libor, rising to 1/2.

Quebec will pay an 8 basis point fee on undrawn commitments, a 2 basis point facility fee, participation fees of up to 1/4 basis points and 6% basic point utilisation fee if the credit is more than half drawn. The total amount of the facility will diminish by \$150m each year from the end of the sixth.

One of several efforts to put them on a more solid footing, with the blessing of the Mexican Finance Ministry, has been mounted by Banco Nacional de Mexico recently launched a similar \$100m commercial paper facility in the U.S., with the guarantee of an insurance company. Another deal is also believed to be in the pipeline.

Elsewhere, Hungary's \$400m loan package, launched last week, is understood to be going well with the management group expected to be completed this week. ENEL, the Italian state electricity concern, has signed a \$200m seven-year refinancing loan in the U.S. with 20 banks including J. Henry Schroder Bank and Trust, and is also refinancing another \$175m loan through Chase Manhattan over eight years at 45 basis points over U.S. CD rates.

Credit Suisse First Boston is arranging a \$100m five-year revolving credit for Portland General Electric, of Oregon, and a \$30m revolving and Euronote facility for Lear Siegler. The Kingdom of Spain is understood to be considering a Euroyen borrowing, but may opt instead to raise domestic yen.

Clearly, such deals could be attractive to borrowers, since they potentially reduce costs, and to lenders, since they may carry accounting benefits and could create short-term and saleable assets if Mexico's financing climate improves. Banks, accepting that their money is likely to be tied up for some time, may at least welcome the replacement of ad hoc rollover arrangements.

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Mohawk Data sale reduces debt

By LOUISE KEHOE in SAN FRANCISCO

MOHAWK Data Sciences, the financially-troubled New Jersey computer systems manufacturer, has agreed to sell five of its U.S. operations to venture capitalist groups for \$180m.

Friday's announcement ended months of speculation. Mohawk announced that it had agreed to sell its service, manufacturing and credit operations to a private company to be formed by two venture capital firms - J. J. Whitney & Co and

Welsh Carson Anderson & Stowe. Mohawk will retain a 10 per cent holding in the newly-formed company.

The proceeds of the sale will allow Mohawk to reduce its outstanding bank debt from \$150m to around \$40m and the remaining debt will be restructured, the company said.

The sale agreement follows several aborted attempts by Mohawk to find buyers for parts of its

operations. Earlier this year, under pressure from Mr Asher B. Edelman, who holds an 8 per cent stake in the company, Mohawk began trying to liquidate its assets, but several previous sales agreements fell through.

Last month, however, Mohawk agreed to sell its European sales and service operations to Recognition Equipment for \$22m. For the year ending April 30 Mohawk posted losses of \$181.2m.

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MORGAN STANLEY INTERNATIONAL NEDERLANDSCHE MIDDELANDSBANK NV NOMURA INTERNATIONAL LIMITED
RABOBANK NEDERLAND J. HENRY SCHRODER WAGG & CO. LIMITED
SWISS BANK CORPORATION INTERNATIONAL LIMITED

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AMSTERDAM-ROTTERDAM BANK N.V.

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MORGAN GUARANTY TRUST COMPANY OF NEW YORK

July 1985

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AEGON
Insurance Group

U.S. \$75,000,000

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10 1/4% Notes due 1992

MORGAN GUARANTY LTD

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J. HENRY SCHRODER WAGG & CO. LIMITED

24th September, 1985

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INTERNATIONAL CAPITAL MARKETS

U.S. MONEY AND CREDIT

Concern over forthcoming Treasury auction

U.S. BOND prices drifted erratically lower last week in the face of weak retail demand, caused by dollar and economic uncertainties and mounting concern about the expected \$27bn flood of new government securities expected to be unleashed later this month when Congress finally raises the debt ceiling limit.

Prices in the government bond market fell by an average of 1/8 to 1/4 point, with the Treasury long bond slipping back to par and sending the yield climbing to 10.63 per cent at the Friday close, up from 10.57 per cent a week earlier.

Corporate bond prices fell even more sharply under the weight of a hefty \$1.5bn in new paper brought to market.

Most short-term U.S. interest rates also edged higher as the Fed funds rate, pushed up monthly by seasonal factors, averaged 8.13 per cent in the latest week. Nevertheless, the Treasury yield curve continued to widen—reaching 351 basis points from about 300 basis points at the end of August.

The slight upturn in short

U.S. MONEY MARKET RATES (%)				
	Last Friday	1 week ago	4 weeks ago	12-month High
Fed Funds (weekly average)	8.13	7.96	7.80	7.76
Three-month Treasury bills	6.96	6.92	7.25	6.87
Six-month Treasury bills	7.25	6.92	7.43	6.87
Three-month prime CDs	7.93	7.96	8.00	7.23
30-day Commercial Paper	7.70	7.65	7.70	6.85
30-day "AA" Long Industrial	7.70	7.65	7.75	7.00

U.S. BOND PRICES AND YIELDS (%)				
	Last Friday	1 week ago	4 weeks ago	12-month High
Seven-year Treasury	100 1/8	100 1/8	100 1/8	100 1/8
20-year Treasury	99 3/4	100 1/8	100 1/8	100 1/8
30-year Treasury	100 1/8	100 1/8	100 1/8	100 1/8
New 10-year "A" Financial	N/A	100 1/8	100 1/8	100 1/8
New "AA" Long utility	N/A	100 1/8	100 1/8	100 1/8
New "AA" Long Industrial	N/A	100 1/8	100 1/8	100 1/8

Source: Salomon Bros (estimates).
Money Supply: In the week ended September 23 \$B fell by \$400m to \$669.5m.

rates had no impact on the dollar, which retreated further, especially against the yen and D-mark, under the threat of continued co-ordinated central bank intervention. The recent sharp decline in the U.S. currency following the G-5 meeting two weeks ago—the results of which were being reviewed at the IMF meeting in Seoul over the weekend—has begun to make investors more nervous, particularly about the possibility of a drying-up in foreign demand.

However, as Mr David Jones of Aubrey Langston notes: "The most immediate market depressant is concern over the availability of new issues which will descend upon the market following an end to the U.S. Senate's theatrics over the debt ceiling bill." With Sen. Sam Nunn effectively "out of money" passage of the debt ceiling bill is expected some time this

week. In its wake, the Treasury is expected to auction more than \$17bn of notes and bonds divided into maturities of four, seven and 20 years, quickly followed by a \$10bn two-year note sale late this month and then a \$22bn package of three-year, 10-year and 30-year paper at the start of November.

According to Mr Frank Mastrapasqua of Smith Barney, the Government will have to raise more than \$80-\$85bn in new cash in the current quarter and a similar amount in the first quarter of 1986.

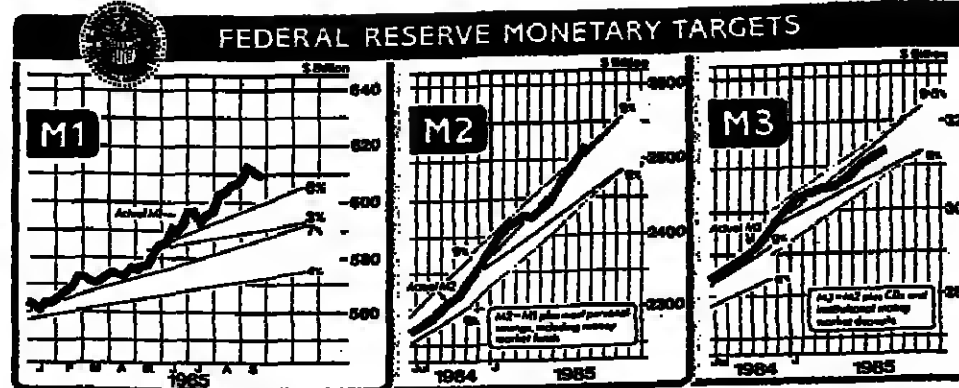
In the meantime the debate continues over the current state of the U.S. economy and the probable Federal Reserve response. The most significant indicator of the current state of the economy was Friday's report on last month's employment picture, the first data for September.

The September statistics, including a 1/10th point increase in civilian unemployment to 7.1 per cent, a smaller than expected 125,000 increase in new farm payrolls and a resumed 111,000 decline in manufactur-

ing employment, were generally weaker than expected—confirming the belief that the strong August figures were something of a fluke.

Generally, Wall Street economists saw the statistics as being consistent with a real Gross National Product (GNP) growth of around three per cent in the third quarter—a factor that helped give the bond markets a temporary lull on Friday morning.

Against this economic backdrop, Wall Street believes the Federal Open Market Committee meeting last week will have voted to maintain the current Fed monetary policy, leaving the Fed funds rate anchored in its recent 7.75 per cent to 8 per cent trading range. "Neither recent developments nor Federal Reserve activity (which included weekend matched sales last week which were viewed



primarily technical) suggest a change in monetary policy in the near term," says Dr Kaufman. The belief that the Fed will continue to hold its time on monetary matters without substantial policy shifts was given an additional boost by the report of the August FOMC meeting released late on Friday. The report showed that the FOMC reaffirmed its basic policy stance and voted to maintain the degree of pressure on reserve positions sought in recent

weeks. "However, this report also confirmed that ahead of the August meeting the Fed touched the brakes and became slightly more cautious in its provision of reserves." In the immediate wake of the G-5 meeting the report notes that the FOMC held a telephone conference to discuss the implications of intervention in the foreign exchange markets and concluded that "the likely potential for U.S. sales of dollars and acquisitions of foreign currencies over the near term fell generally within existing committee authorisations."

Meanwhile, a new round of rumours that Mr Paul Volcker, Fed chairman, is about to quit, either for Wall Street or the newly "super-charged" World Bank, have surfaced—prompting two official Fed denials last week but adding to the existing turbulence in the debt markets.

Paul Taylor

UK GILTS

British institutional buyers return in force

AS THE DOLLAR continued to sag under the threat, and occasionally the reality, of central bank intervention last week, British institutions returned to the gilt-edged market in force.

The Government Broker managed to sell up to £600m of stock and sterling's periodic bouts of weakness against European currencies did not prevent gains of close to 1 point for long-dated issues.

By Friday the exhaustion of the Treasury 3 per cent 1989, the Exchequer 10 1/2 per cent 1997, and the Conversion 9 1/2 per cent 2004 left the Bank of England with only two small tranches of index-linked stock on offer.

The expected announcement of a series of new tranches of conventional stocks, however, did not materialise, leaving many of the market perplexed by the authorities' current approach to funding.

One theory was that the bank decided against an issue at the last moment when, after the break-up of the Geneva oil price talks, a renewed spate of EMS rumours hit the pound.

The switch in funding tactics away from regular issues of £1bn tap stocks towards much smaller tranches of existing stocks has, in any event, made the traditional Friday afternoon announcement rather artificial.

Monday or Tuesday is just as good, particularly if the authorities want first to see whether oil prices and the pound settle down.

The Bank may also have wanted to signal that it was still fairly relaxed about the pace of funding and was not yet back in the game of selling as much stock as possible to push sterling M3 back into its target range.

Officials still insist that the market misread the funding strategy in the summer, when strong foreign buying meant that net sales to British institutions were minimal, despite the relatively buoyant level of total sales. Now they are attempting to emphasise the continuity of policy.

This week the main signposts for the market are likely to be Tuesday's money supply figures and the Conservative Party con-

ference. The official view appears to be that, on purely domestic considerations, a 1/4 point cut in base rates to 11 per cent could be justified more or less at any time.

Despite the wayward behaviour of sterling M3, monetary policy is perceived as being, at one senior official put it, "on the tight side of neutral."

The consensus in the market, however, is that having an unexpectedly good figure for sterling M3 on Tuesday (the median forecast is for growth of about 1 per cent during September) then a cut during party conference week would smack too much of political opportunism.

It has been done before, but as Stephen Lewis of brokers Phillips and Drew puts it, such a move would not persuade the City that the Chancellor's first priority was the stability of financial markets.

Gilt-edged brokers are also eagerly awaiting Mr Lawson's Mansion House speech on October 17 for a clear exposition of the Government's current approach to monetary policy.

Philip Stephens

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR			Chg. on		
Symbol	Price	Yield	Symbol	Price	Yield
STRAIGHT			ABC 12% 00	100	10.00
100 1/8	100 1/8	10.00	Rural BC Aust 12 91	100	10.00
100 1/4	100 1/4	10.00	100 100	100	10.00
100 1/2	100 1/2	10.00	100 100	100	10.00
100 3/4	100 3/4	10.00	100 100	100	10.00
100 5/8	100 5/8	10.00	100 100	100	10.00
100 3/4	100 3/4	10.00	100 100	100	10.00
100 1/2	100 1/2	10.00	100 100	100	10.00
100 1/4	100 1/4	10.00	100 100	100	10.00
100 1/8	100 1/8	10.00	100 100	100	10.00
100 1/16	100 1/16	10.00	100 100	100	10.00
100 1/32	100 1/32	10.00	100 100	100	10.00
100 1/64	100 1/64	10.00	100 100	100	10.00
100 1/128	100 1/128	10.00	100 100	100	10.00
100 1/256	100 1/256	10.00	100 100	100	10.00
100 1/512	100 1/512	10.00	100 100	100	10.00
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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. OPTIONS TRADING

Exchanges fear results of deregulation

A WALL on the floor of the Philadelphia Stock Exchange divides the equities pitches from those where equity options are traded. Pretty soon, it may have to be torn down.

Put up in 1975 at the behest of the Securities and Exchange Commission, it is designed to enforce a ban on "side-by-side" trading—that is, specialists keeping a book in both an option and its underlying equity.

Although we opposed the wall at the time, we have grown fond of it because we think that it is very necessary," says Mr. Nicholas Giordano, the exchange's president.

Side-by-side trading has been barred because it has been thought to offer unfair advantages as well as the opportunity to manipulate prices. Private knowledge of a significant buy or sell order for an equity could influence the price a specialist makes to unwinding options traders.

"You do not have to be very sophisticated to understand that if you are a market-maker in both the equity and the option, you have an information

advantage. It's easy to make money," says Mr. Walter Auch, chairman of the Chicago Board Options Exchange.

Mr. Giordano and Mr. Auch are thus up in arms at a series of recent decisions by the Securities and Exchange Commission, setting the stage for a war among individual stock exchanges as well as with the National Association of Securities Dealers, which runs the NASDAQ equity market.

The CBOE, as a market exclusively for options, and regional exchanges such as Philadelphia, stand to lose business to their New York rivals if the SEC sustains its current deregulatory approach.

The SEC has authorised a limited one-year experiment in side-by-side trading to begin on January 20. The ruling also involves the underwriting of two other barriers: the division between the listed and the over-the-counter market, and a ban on the listing of an option on more than one exchange.

The NASD, whose market-makers trade the shares of over 4,000 companies, most of them smaller than the 1,500 listed on

the New York Stock Exchange, has long sought the right to offer options on its stocks. In April, it got its wish, and more.

The SEC approved a pilot programme in which NASD market-makers will be able to trade options on the six most active OTC options side-by-side with the equities. But it also ruled that stock exchanges must receive the new privileges as well. Not only could the exchanges take part in the side-by-side pilot, but they could offer options on a limited number of OTC stocks for the first time almost immediately. Just as significantly, they could all offer the same options.

Against the argument that side-by-side trading can lead to manipulation, the SEC argued that there is a sufficient number of market-makers and adequate liquidity to prevent abuse. Stock exchanges, however, employ the specialist system, in which the right and obligation to make a market in each security is granted to one specialist. NASDAQ has at least two competing market-makers in each stock.

The SEC decision started a battle in which several exchanges competitively traded options on a small number of OTC stocks. The outcome supported the contention of the opponents of multiple listing, including Mr. Auch and Mr. Giordano, that it simply leads to the dominance of one market place. The American Stock Exchange has quickly taken the lion's share of trading in each of the options it offered.

"Multiple trading seems to be a logical competitive thing, and you look at how it works," says Mr. Auch. "To the extent that it does work, it fragments the market." Mr. Auch also argues that multiple listing undermines the exchanges' self-regulatory function, is against the interests of major securities firms which are members of all exchanges, and causes unnecessary development costs for the exchanges and their members.

The implications of the SEC's decisions are far-reaching. The CBOE is seeking approval to become a stock exchange. The NASD, facing the prospect that exchanges will be able to trade its stocks, wants the right to

trade exchange-listed stocks. The New York Stock Exchange, in the face of NASD competition as well as the so-called "third market"—off-exchange trading of listed stocks—has moved forward its opening hour by half an hour to 9.30 am, and other exchanges have been forced to follow suit. The specialist system faces mounting criticism, though, on the CBOE, the market-maker system is also under attack.

These questions and the three underlying issues—NASDAQ versus listed competition, multiple listing and side-by-side trading—will all come under the microscope when the pilot scheme begins in January. Market-makers and specialists in the six stocks and their options—Apple Computers, Convergant Technologies, Digital Switch, Intel, Intergraph and MCI Communications—will no doubt be at pains to demonstrate the integrity of the new system. If it is a success and is subsequently broadened, the structure of the U.S. equity market is likely to change substantially.

Alexander Nicoll

AT & T discount rules eased

BY TERRY DODSWORTH IN NEW YORK

AMERICAN Telephone & Telegraph (AT&T), the U.S. long distance telephone company, is to be allowed to offer a broader range of discount services under new proposals adopted by the Federal Communications Commission (FCC) — though strongly opposed by other long distance carriers.

Justifying the decision, which was carried by a four to one vote, the Commission said that it was designed to give consumers some of the benefits of a fully competitive market while that market matures. AT&T said that it was prepar-

ing several plans for new discount services which will be filed with the FCC, the government regulatory body for the U.S. telephone industry.

The FCC's move marks a further step in the process of allowing AT&T to compete without any restrictions in the long distance market.

Since the Bell telephone system was broken up two years ago, splitting the long distance services from the regional networks, AT&T has been constantly lobbying against the continuing regulation of its rates. It has argued that it should be allowed to compete

on an equal footing with its newer rivals, such as MCI Communications and GTE Sprint, while they in turn have lobbied for more restrictions on the larger company because of its dominant position in the market.

The Commission's new ruling allows AT&T to apply a new formula for justifying discounted services. At present, its services have to reflect the full costs of operating the whole company, but under the new system it will be able to price a service on the basis of the operating costs of that business alone.

ENI to buy petrochemical assets from Montedison

BY ALAN FRIEDMAN IN MILAN

MONTEDISON, Italy's leading chemicals, health care and energy group, is negotiating to sell between 1,500m and 11,000m (US\$507m) of petrochemical assets which it considers non-strategic to Enichemica, the chemicals subsidiary of ENI, the state energy group.

Aside from the desire to continue its industrial rationalisation programme, Montedison is seeking to reduce its group debt, currently believed to be around 14,500m (US\$2.5bn).

Montedison and Enichemica are understood to be discussing a variety of assets, including ethylene, chlorine, caustic soda and chlorinated solvent plants at Porto Marghera, near Venice, and parts of the Priolo petrochemical plant, near Siracusa in Sicily.

The last big asset transfer between Montedison and ENI occurred in 1982, when ENI took over Montedison's commodity petrochemical plants, largely removing Montedison from ethylene and polyethylene production. The result of that deal was to make ENI the

Italian leader in those areas while Montedison became the leader in polypropylene.

The current talks are understood to be seen in a favourable light by officials at ENI who wish to continue restructuring the group's chemical activities, though any eventual deal will require ministerial approval.

Montedison is expected to make a 1985 full-year consolidated net profit of around 1,100m. Apart from a tiny profit in 1979, this would represent the first time the group has come out of loss for 10 years. Last year Montedison lost 1,831m, which compared with a 1983 loss of 1,322m and a 1982 deficit of 1,859m.

Dr. Raul Gardini, managing director of Ferruzzi, the Italian agribusiness group, said at the weekend that his company held just under 2 per cent of Montedison and had spent around 1,800m acquiring the stake. This marked the first time Sig Gardini had officially confirmed the extent of his direct involvement in Montedison, where he is a member of the board.

Failed Canadian banks' compensation

OTTAWA—Compensation for uninsured depositors of the failed Canadian Commercial Bank and Northland Bank is estimated at C\$875m (US\$638m). Mrs. Barbara McDougall, Minister of State for Finance, announced here over the weekend.

Mrs. McDougall said legislation was being introduced authorising payments to depositors of

the banks, which were closed by the government on September 1.

The Bill would also provide compensation for the C\$6m of uninsured deposits at CCB Mortgage Investment Corp, if it is unable to solve its liquidity problems.

Gulf Canada's Montreal refinery, scheduled to close at the end of December, will re-

main open until February because the company has found a potential buyer for the facility.

The refinery is part of Gulf Canada's assets east of Ontario, which were not sold to Petro-Canada, the government-owned energy group, after the Olympia and York Investments takeover of Gulf Canada. Reuter

NEW INTERNATIONAL BOND ISSUES									
Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %		
U.S. DOLLARS									
CFE (a) (i) (j)	250	1994	8 1/4	4 1/2	100	CCF	-		
Mitsubishi Finance (i)	75	1982	7	(7)	100	Mitaka Secs (Eur)	-		
Chlorop (a) (i) (j)	500	2005	20	22 1/2 bp	100	Merrill Lynch	-		
Donorale Credit (i) (j)	300 max	-	-	1/4	100	Morgan Stanley	-		
Credit du Nord (a) (i) (j)	100	1987	12	1/4	100	Credit du Nord	-		
Widias Credit Bank (i)	150	1985	18	10 1/4	100	Salomon Brothers	16.825		
Widias Fargo (a) (i) (j)	150	1982	7	22 1/2 bp	100	Salomon Brothers	-		
AUSTRALIAN DOLLARS									
Chloropine Bank (i)	30	1988	3	13 1/4	100 1/2	Bayrische Vereinsbank	13.163		
Security Pacific (i)	50	1988	3	14	100 1/4	Green Royal Bank	13.732		
NEW ZEALAND DOLLARS									
Coca-Cola (i)	50	1990	5	17	100	Morgan Guaranty	17.000		
S-WALES									
Enghart (i)	175	1985	10	6 1/4	100	BBF-Bank	6.750		
Nesta Oy (i)	150	1982	7	6 1/2	100	Deutsche Bank	6.500		
Adia Resources (i) (j)	100	1985	10	4 1/4	100	CSFB-Effektbank	-		
Commercial Bank (a) (i) (j)	500	1985	10	1/4	100	Commerzbank	-		
SWISS FRANKS									
Matheson Cos. (i) (j)	100	1980	-	2 1/4	100	Credit Suisse	2.875		
Matheson Ltd. (i)	20	1980	-	1 1/4	100	UBS	1.750		
Alpine Refining (i) (j)	70	1980	-	2 1/4	100	Credit Suisse	2.875		
Japan Highway (i)	200	1985	-	5 1/4	100	SBC	5.250		
San-Ei Chem. (i)	60	1981	-	1 1/4	100	SBC	1.750		
Widias Fargo (i) (j)	40	1981	-	1 1/4	100	Banco d. Sicilia	1.750		
Widias Fargo (i) (j)	150	1985	-	5 1/4	100	UBS	5.375		
Togo Refining (i) (j)	33	1980	-	(3)	100	Swiss Volksbank	5.442		
Tokio Elec. Power (i) (j)	150	1980	-	5 1/4	100 1/4	UBS	5.500		
Prov. of Quebec (i)	200	2005	-	5 1/4	100	SBC	5.500		
Franklin Co. (i) (j)	60	1980	-	(3)	100	Credit Suisse	5.625		
Int'l Food Co. (i) (j)	10	1980	-	5 1/4	100	Handelsbank	5.625		
Nippon Tangier (i) (j)	10	1980	-	5 1/4	100	Swiss Volksbank	5.625		
Matheson (i) (j)	100	1985	-	5 1/4	100 1/2	Chase Mtn. (Swiss)	5.165		
Matheson Tel. Systems (i) (j)	80	1982	-	5	89 1/4	UBS	5.083		
STF Finance Corp. (i)	100	2000	-	(7)	100	Sudic	-		
ECB									
BNP (i) (j)	150	1985	10	-	58.95	Salomon Brothers	-		
BNP (i) (j)	150	1983	8	8 1/4	100	BNP	6.825		
BNP (i) (j)	30	1984	8	8 1/4	100	Paribas	6.750		
Credit Lyonnais (i) (j)	50	1985	10	8 1/4	100	S. G. Warburg	6.875		
STERLING									
Enghart (i) (j)	35	1982	7	11	100 1/4	Kleinwort Benson	10.947		
Britannia Mt. Sec. (i) (j)	75	1983	8	1/4	100	Handover Bank	-		
Bank of Nova Scotia (a) (i) (j)	100	2000	15	10 1/2	100.1	Swiss Mortgage	-		
NORWEGIAN KRONER									
World Bank (i)	250	1985	10	8 1/2	100 1/4	Borgen Bank	0.468		
GULDBERG									
Sk. Moss & Hope (i)	200	1985	0	7	100 1/2	Sk. Moss & Hope	5.928		
LIBRE									
ENB (i) (j)	100m	1980	5	13 1/2	100	San Paolo Bank	13.500		
VEN									
Bridgestone (i) (j)	20m	2000	15	2 1/4	100	Daewoo Europe	2.250		
ENB (i) (j)	30m	1987	12	6.2	98 1/2	Mitaka Secs.	6.261		
ENB (i) (j)	30m	2000	13.32	6.2	98.45	Yamichid Secs.	6.258		
ENB (i) (j)	25m	1982	7	6 1/4	100 1/2	Howard Int.	6.258		
ENB (i) (j)	15m	1987	12	1/4	100.1	Daewoo Europe	-		

* Not yet priced. † Final terms. ** Private placement. † Floating rate note. † With hard warrants. † With hard warrants. (a) 4 1/2% over 3m Libor. (b) 4 1/4% over 3m Libor. (c) 22 1/2 bp over 1m Libor. (d) Part exchange for old issues (Dec. 84). (e) 1/4% over 3m Libor. (f) 1/4% over 3m Libor. (g) 10 bp over 3m Libor. (h) 1/4% over 6m Yen Libor. (i) 3m US\$ Libor, hedged into ECUs using spot and 3m forward market. Registered with U.S. SEC. Note: Yields are calculated on ARD basis.

US DOLLAR
THE WORLD VALUE
IN THE FT EVERY FRIDAY

General Motors Acceptance Corporation

(Incorporated in the State of New York, United States of America)

U.S.\$250,000,000

10 per cent. Notes due October 1, 1992

Swiss Bank Corporation International Limited

Deutsche Bank Capital Markets Limited

Morgan Stanley International

Union Bank of Switzerland (Securities) Limited

Merrill Lynch Capital Markets

Nomura International Limited

Aigemene Bank Nederland N.V.

Banque Bruxelles Lambert S.A.

Banque Paribas Capital Markets

Commerzbank Aktiengesellschaft

Creditanstalt-Bankverein

IBJ International Limited

The Nikko Securities Co., (Europe) Limited

Rabobank Nederland

S.G. Warburg & Co. Ltd.

Banque Générale du Luxembourg S.A.

Baring Brothers & Co., Limited

Crédit Lyonnais

Generale Bank

Mitsubishi Finance International Limited

Orion Royal Bank Limited

Société Générale

Wood Gundy Inc.

Jullus Baer International Limited

Banca della Svizzera Italiana

Bank J. Vontobel & Co. AG

Hentsch & Cie

Pictet International Ltd.

Banca del Gottardo

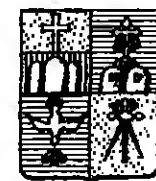
Bank Leu International Ltd.

Handelsbank N.W. (Overseas) Ltd.

Lombard Odier International Underwriters S.A.

Swiss Volksbank

All of these Securities have been sold. This announcement appears as a matter of record only.



U.S. \$150,000,000

Floating Rate Subordinated Notes due 1997

Issued on a fiduciary basis
by Banque Générale du Luxembourg S.A. representing
undivided beneficial interests in a subordinated loan made
by Banque Générale du Luxembourg S.A. to

Banco di Napoli International S.A.

Payment of principal and interest irrevocably and unconditionally guaranteed on a subordinated basis by

Banco di Napoli

MORGAN STANLEY INTERNATIONAL

BANK OF TOKYO INTERNATIONAL
LimitedSALOMON BROTHERS INTERNATIONAL
LimitedAMRO INTERNATIONAL
Limited

BANKAMERICA CAPITAL MARKETS GROUP

BANK OF YOKOHAMA (EUROPE) S.A.

BANQUE INDOSUEZ

CITICORP INVESTMENT BANK

COUNTRY BANK

CREDIT LYONNAIS

CREDITANSTALT-BANKVEREIN

DRESDNER BANK

FIRST CHICAGO

FUJII INTERNATIONAL FINANCE LTD.

Generale Bank

GENOSSENSCHAFTLICHE ZENTRALBANK AG

E F HUTTON & COMPANY (LONDON) LTD

IBJ INTERNATIONAL

KIDDER, PEABODY INTERNATIONAL

KYOWA BANK NEDERLAND N.V.

MITSUBISHI TRUST & BANKING CORPORATION (EUROPE) S.A.

NIPPON CREDIT INTERNATIONAL (HK) LTD.

SANWA INTERNATIONAL

SVENSKA HANDELSBANKEN GROUP

THE TAIYO KOBE BANK (LUXEMBOURG) S.A.

TOKAI INTERNATIONAL

TORONTO DOMINION INTERNATIONAL

DEAN WITTER CAPITAL MARKETS-INTERNATIONAL

September 16, 1985

New issue

This announcement appears as a matter of record only.

October 1985

A copy of this document, which contains listing particulars with regard to Strata Investments plc ("the Company") in accordance with The Stock Exchange (Listing) Regulations 1984, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with those Regulations. Application has been made to the Council of The Stock Exchange for the Ordinary Shares of 25p each of the Company issued and now being issued and the warrants attached thereto ("the Warrants") to be admitted to the Official List.



The directors of the Company ("the Directors"), whose names appear in paragraph 5(a) of Appendix II, are the persons responsible for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

STRATA INVESTMENTS plc

(Incorporated in England and Wales under the Companies Act 1985. Registered number 1940906)

Offer for Subscription

of
15,000,000 Ordinary Shares of 25p each
(with Warrants attached) at 100p per share payable in full on application

Underwritten by
Cazenove & Co.

The Application List for the Ordinary Shares (with Warrants attached) now offered for subscription will open at 10 a.m. on 10th October, 1985 and may be closed at any time thereafter. The procedure for application and the Application Form are set out at the end of this document.

Strata Investments plc

Directors

Michael Edward Ranulph Allsopp (Chairman) Stephen Rodney Burley
Godfrey John Chandler Henry Merton Henderson Richard Walker Smith

Registered Office

26 Finsbury Square, London EC2A 1DA.

Investment Managers and Secretaries

Henderson Administration Limited, 26 Finsbury Square, London EC2A 1DA.

Auditors and Reporting Accountants

Deloitte Haskins & Sells, P.O. Box 207, 128 Queen Victoria Street, London EC4P 4JX.

Receiving Bankers

The Royal Bank of Scotland plc, New Issues Department, P.O. Box 425, 67 Lombard Street, London EC3P 3DL.

Registrars and Transfer Office

The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 27, 34 Fettes Row, Edinburgh EH3 6UT.

Bankers

The Royal Bank of Scotland plc, 67 Lombard Street, London EC3P 3DL.

Solicitors to the Company and to the Offer

Slaughter and May, 35 Basinghall Street, London EC2V 5DB.

Stockbrokers

Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN and The Stock Exchange.

Introduction

The Company has been established as an investment company whose principal objective will be to achieve capital growth in the long term through investment in the securities of small companies world-wide. The Company will not restrict itself to investment in pre-determined sectors or geographical areas and will be managed so as to qualify as an investment trust for tax purposes.

Henderson Administration Limited has been appointed to act as the Company's investment manager, within the guidelines laid down by the Directors.

Investment background

The Directors believe that opportunities for successful portfolio investment in small companies have increased in many countries during recent years. A number of factors have contributed to this. Developments in technology have created new industries, in the growth of which many small companies have successfully participated. A number of governments have recognised that small companies can make a significant contribution to economic growth and employment and have therefore adopted measures to encourage their development. Changes in policy, sometimes dictated by economic circumstances, have led to many large companies restructuring their operations and disposing of activities which are not in the mainstream of their business. Such restructuring has created opportunities for management buy-outs and, in many cases, has led to the development of small companies dedicated to just one or two areas of business where the management is closely associated with their success.

An important factor in the establishment and growth of many small companies has been the emergence of new sources of finance. In the United States and the United Kingdom there has been a significant increase in the number of venture and development capital organisations prepared to finance small companies. Of particular interest to portfolio investors has been the establishment, in most of the major financial centres of the world, of second markets in which dealings take place in companies' securities. The expansion of these markets has been principally due to their ability to meet the demands of small companies for a regulated market in their shares with less stringent requirements for admission than those prescribed for official listings or by principal stock exchanges. Examples of these second markets are:

- In the United Kingdom, the Unlisted Securities Market which, since its establishment in 1980, has admitted more than 300 companies.
- In the United States, the over the counter market and, in particular, the NASDAQ system, through which the securities of more than 4,000 companies are dealt.
- In Japan, the Second Sections which exist on some of the Japanese stock exchanges and on which the shares of more than 600 companies are traded.
- In Continental Europe, the French Second Marché which has admitted for trading more than 100 companies, together with the second markets which have also been established in Holland, Sweden and Denmark.

By comparison with large companies, investment in small companies can offer greater potential for capital appreciation, although at some increased risk. Small companies are frequently at an earlier and less predictable stage of development than large companies and their appraisal is inevitably more time-consuming both initially and on a continuing basis. Marketability of their securities is often limited.

The Directors believe that the Company offers investors seeking exposure to small company investment the advantages of an internationally diversified portfolio which will be subject to regular monitoring and active management.

Investment policy

The principal investment objective of the Company will be long-term growth in capital. The Company's policy will be to invest in small companies with above-average growth prospects. Particular emphasis will be placed upon investment in the securities of companies whose shares are dealt in on second markets. The typical market capitalisation of companies in which investments will be made may differ on a geographical basis.

The Company's portfolio will not be invested according to a pre-determined geographical distribution. It is however expected that approximately 40 per cent. of the Company's assets will initially be invested in the securities of United Kingdom companies and 30 per cent. in the securities of United States companies, with the balance divided between Far Eastern and Continental European securities. It is not envisaged that any particular sector specialisation will be reflected in the portfolio.

In selecting investments the Directors will bear in mind the following principal criteria, most of which they would expect to be present in any company in which an investment is to be made:

- capable and professional management;
- products or services in specialist areas of business;
- a growing market for its products or services;
- potential for increased market share and improving margins;
- lack of dependence on a small customer base; and
- suitable incentives for management to succeed.

SHARE CAPITAL

Authorised

£4,180,000

in Ordinary Shares of 25p each

Issued and
to be issued
fully paid

£3,800,000

Successful applicants (or their renounees) will receive Warrants conferring the right, on the terms of the particulars of the Warrants set out in Appendix I, to subscribe for one Ordinary Share at 100p per share on 31st January in any year from 1987 to 1993 inclusive, for every ten Ordinary Shares allotted to them.

The Directors are aware of intended applications for 11,200,000 Ordinary Shares (with Warrants attached). Such applications will be accepted in full.

Whilst the emphasis of the portfolio will be on small companies, investments may also be made, subject to the above criteria, in any company where the prospects for capital growth appear to be particularly attractive. The Company may also invest in securities in which no recognised market exists but such securities will form only a small proportion of the Company's portfolio.

The Company will be prepared to use borrowed funds on a short or medium-term basis when this is considered to be advantageous. In managing the Company's currency exposure, hedging operations may be undertaken.

The Directors will not normally expect to be represented on the boards of companies in which investments are made and will not take legal or management control of underlying investments.

The Directors intend that the Company will so conduct its affairs as to satisfy the conditions required for it to be approved as an investment trust in accordance with section 359 of the Income and Corporation Taxes Act 1970 (as amended). Accordingly, not more than 15 per cent. of the assets of the Company (before deducting borrowed money) will be lent to or invested in the securities of any one company (other than an investment trust which has been approved by the Board of Inland Revenue or which would qualify for such approval but for the fact that it is not listed).

The Directors intend that the investment policy set out above will be adhered to for the period of at least three years following admission of the Ordinary Shares in the Official List.

Directors of the Company

The following are the Directors of the Company all of whom are non-executive:

M. E. R. Allsopp (Chairman), who is aged 54, is non-executive Chairman of Allied Dunbar & Company plc and of Baronsmead Venture Capital plc. He is also a past Chairman of the London Discount Market Association.

S. R. Burley, who is aged 38, is the investment manager and a director of RTZ Pension Investments Limited.

G. J. Chandler, who is aged 60, is a director of a number of investment trusts and financial companies and is Deputy Chairman of W. H. Smith & Son (Holdings) PLC. Until April 1985, he was a partner in Cazenove & Co.

H. M. Henderson, who is aged 33, is a partner of Cazenove & Co. and is also a director of Updown Investment Co. PLC.

R. W. Smith, who is aged 34, is a director of Henderson Administration Limited and is the investment manager responsible for the management of Lowland Investment Company plc and English National Investment Company plc. He is also responsible for the overall management of the United Kingdom unit trusts within the Henderson Group.

Investment management

The Directors will be responsible for the determination of the Company's investment policy and the overall supervision of the Company's investments.

The Company has appointed Henderson Administration Limited ("Henderson Administration") as investment manager to manage the Company's portfolio on a day-to-day basis and to implement investment policy, including the provision of day-to-day investment advice.

Henderson Administration is a wholly-owned subsidiary of Henderson Administration Group plc, the shares of which are listed on The Stock Exchange and which is regarded as one of the leading independent investment management houses in the City of London. Henderson Administration Group plc and its subsidiaries ("the Henderson Group") manage investment funds with a value at 31st August, 1985 of approximately £2,750 million. Included in the total of funds under management are six investment trusts, 34 authorised unit trusts, 15 offshore funds, 93 pension funds, together with portfolios of private individuals and other funds. A substantial proportion of the assets managed by the Henderson Group is invested overseas.

The Association of Investment Trust Companies publishes information, based on the asset value of member trusts, which demonstrates comparative investment management performance in terms of the total return on net assets. On the basis of the most recent such information, which is calculated over a five-year period to 31st August, 1985, for a total of 111 investment trusts, the gross assets at 31st August, 1985 and the ranking, where appropriate, of the six investment trusts managed by Henderson Administration is as follows:

	Gross assets at 31st August, 1985	Ranking in terms of total return on net assets
Witan Investment Company plc	£378 million	12th
Electric and General Investment Company plc	£63 million	21st
Lowland Investment Company plc	£26 million	1st
Greenfriar Investment Company plc	£23 million	4th
English National Investment Company plc	£5 million	Note (i)
The British Kidney Patient Association Investment Trust plc	£1 million	Note (ii)

Notes:
(i) English National Investment Company plc is a split capital investment trust and this measure of investment performance is therefore inappropriate.

(ii) The British Kidney Patient Association Investment Trust plc was formed in November, 1982.

Duration of the Company

Shareholders will have the opportunity from time to time to decide if they wish the Company to continue in existence. The Articles of Association of the Company provide that unless an Ordinary Resolution is passed at the Annual General Meeting of the Company in 1996 approving the continuation of the Company, the Directors shall convene an Extraordinary General Meeting of the Company within two months of that Annual General Meeting at which an Extraordinary Resolution shall be proposed to shareholders to wind up the Company. The Articles of Association of the Company provide that shareholders voting shall be bound to vote in favour of such an Extraordinary Resolution. In the event of the Company not being wound up, this procedure will be repeated at five-yearly intervals thereafter.

The Articles of Association of the Company contain provisions whereby the liquidator appointed in any winding up could be authorised by Special Resolution *inter alia* to vest assets in trustees of unit trusts pursuant to a scheme whereby units would be issued in exchange for the assets transferred.

Dividend policy and accounts

The income of the Company will be derived mainly from securities although interest may be earned on funds pending their investment. In the light of the investment policy of long-term capital appreciation and the current level of dividend yields prevailing in the type of securities in which the Company proposes to invest, it is anticipated that the Company will pay only a minimal annual dividend. This dividend is expected to be paid in January of each year, commencing in 1987.

The Directors intend to retain not more than 15 per cent. of the Company's income derived from shares and securities in any accounting period so as to enable the Company to qualify for approval as an investment trust for United Kingdom tax purposes. Dividends will only be paid out of income received, shares of profits of associated companies being unavailable for this purpose unless and until distributed to the Company.

The distribution of dividends of surpluses arising from the realisation of investments is prohibited by the Articles of Association of the Company.

Annual accounts for the Company will be made up to 31st October in each year (other than 1985) and the Company's first accounts will be made up for the period from its incorporation to 31st October, 1985.

Details of the Offer

Shares
The Company is offering for subscription 15,000,000 Ordinary Shares of 25p each (with Warrants attached) at 100p per share, payable in full on application, in order to raise the sum of £15,000,000 (before expenses and commissions). The Ordinary Shares now being issued will rank in full for all dividends and other distributions declared, made or paid on the ordinary share capital of the Company. It is expected that Letters of Allotment will be posted to successful applicants not later than 15th October, 1985 and that, subject to the admission of the Ordinary Shares to the Official List, dealings will commence on 16th October, 1985.

Warrants
The persons to whom the Ordinary Shares are allotted (or their renounees) will receive Warrants conferring the right to subscribe for one Ordinary Share on 31st January in any of the years 1987 to 1993 inclusive at 100p per Ordinary Share (subject to the adjustments described in Appendix I) for every ten Ordinary Shares allotted. This will result in there being outstanding subscription rights under the Warrants for 1,520,000 Ordinary Shares. Until 22nd November, 1985 dealings will be in multiples of ten Ordinary Shares only with Warrants attached. Thereafter, Ordinary Shares and Warrants will be dealt in separately. Particulars of the Warrants are set out in Appendix I.

Substantial Interest

Following the Offer for Subscription, Witan Investment Company plc ("Witan") will hold 3,000,000 Ordinary Shares with Warrants to subscribe for a further 300,000 Ordinary Shares.

Taxation

General Considerations
It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval as an investment trust under section 359 of the Income and Corporation Taxes Act 1970 (as amended). If such approval is granted, the Company will not be liable to United Kingdom taxation on its capital gains, although holders of Ordinary Shares or Warrants may be liable to taxation on capital gains arising on the disposal of their Ordinary Shares and/or Warrants.

The Company will be liable to United Kingdom corporation tax on its income. Income arising outside the United Kingdom will be subject to withholding taxes at varying rates but double taxation relief will generally be available.

The Directors consider that the Company will not be a close company immediately following the Offer for Subscription.

Taxation Aspects of Warrants

The Directors have been advised that for the purposes of taxation of capital gains:

- (a) the cost of subscribing for Ordinary Shares (with Warrants attached) will be apportioned between the Ordinary Shares and the Warrants on the basis of their respective values at the date of allotment of the Ordinary Shares. The relationship between their values is expected to be close to that between the Ordinary Shares and the Warrants on the date when they are first dealt in separately;
- (b) under the provisions of the Capital Gains Tax Act 1979 the Warrants will not constitute "wasting assets" and on their disposal (a term which includes abandonment) the full cost of the Warrants, calculated as above, will be allowed in computing any gain or loss; and
- (c) the exercise by a holder of Warrants of his right to subscribe for Ordinary Shares will not be treated as a disposal of the Warrants. For the purposes of computing any gain or loss on a subsequent disposal of such Ordinary Shares, the original cost of the Warrants will be added to the subscription price payable on exercise of the subscription rights.

Accountants' report

The following is the text of a report received from Deloitte Haskins & Sells, Chartered Accountants, the auditors to the Company:-

"The Directors,
Strata Investments plc,
26 Finsbury Square,
London EC2A 1DA.

128 Queen Victoria Street,
London EC4P 4JX.
3rd October, 1985

Gentlemen,
We report that Strata Investments plc, formerly Trushelfco (NO. 840) Limited was incorporated on 21st August, 1985 and that since that date (with the exception of the preparation of a balance sheet as at 17th September to enable Trushelfco (NO. 840) Limited to register as a public limited company) no accounts have been made up, no dividends have been declared or paid and it has not commenced business.

Yours faithfully,
Deloitte Haskins & Sells
Chartered Accountants."

Appendix I

Particulars of the Warrants to subscribe for 1,520,000 Ordinary Shares of 25p each in the Company ("the Warrants")

The terms and conditions attaching to the Warrants will be as follows:-

1 Subscription Rights

- (a) A registered holder for the time being ("a holder") of a Warrant shall have rights ("subscription rights") to subscribe for Ordinary Shares of 25p each in the Company ("Ordinary Shares") in cash, on each "subscription date", being 31st January in any of the years 1987 to 1993 inclusive (or, if later, the date in any such year 30 days after the date on which copies of the audited accounts of the Company for its then immediately preceding financial year are despatched to Ordinary Shareholders), for all or any of the number of Ordinary Shares of which he is the registered holder of the right to subscribe at the price of 100p per Ordinary Share ("the subscription price"), payable in full on subscription provided that if the Company shall change its financial year end from 31st October, there shall be substituted for the said 31st January the date falling three months after the new financial year end. The number and/or nominal value of Ordinary Shares to be subscribed and the subscription price will be subject to adjustment as provided in paragraph 2 below.
- (b) In order to exercise the subscription rights in whole or in part the holder of a Warrant must lodge it at the office of the registrars for the time being of the Company on or within 28 days prior to the relevant subscription date, having completed the notice of subscription thereon, accompanied by a remittance for the subscription price of the Ordinary Shares in respect of which the subscription rights are exercised. Once lodged, a notice of subscription shall be irrevocable save with the consent of the Board of Directors of the Company ("the Directors"). Compliance must also be made with any statutory requirements for the time being applicable.
- (c) Not earlier than six weeks nor later than four weeks before each subscription date the Company shall give notice to the holders of the outstanding Warrants reminding them of their subscription rights.
- (d) Ordinary Shares issued pursuant to the exercise of subscription rights will be allotted not later than 14 days after and with effect from the relevant subscription date and certificates in respect of such Ordinary Shares will be despatched (at the risk of the person entitled thereto) not later than 28 days after the relevant subscription date to the person in whose name the Warrant is registered at the date of such exercise or to such other person as may be named in the form of nomination available for the purpose from the registrars for the time being of the Company. In the event of a partial exercise of the subscription rights comprised in a Warrant, the Company shall at the same time issue a fresh Warrant in the name of the registered holder for any balance of his subscription rights remaining exercisable.
- (e) Ordinary Shares allotted pursuant to the exercise of subscription rights will not rank for any dividends or other distributions declared, made or paid in respect of any financial year of the Company prior to the financial year current at the relevant subscription date but subject thereto will rank in full for all dividends and (save insofar as an adjustment has been made in respect thereof following a capitalisation under paragraph 2(a) or under paragraph 2(b) below) other distributions in respect of the then current financial year and *pari passu* in all other respects with the Ordinary Shares in issue at that date provided that on any allotment falling to be made pursuant to paragraphs 3(f) or 3(g) below the Ordinary Shares so to be allotted shall not rank for any dividend or other distribution declared, made or paid prior to allotment in respect of the then current financial year.
- (f) It is the intention of the Company to apply to the Council of The Stock Exchange for the Ordinary Shares allotted pursuant to any exercise of subscription rights to be admitted to the Official List and to use all reasonable endeavours to obtain the grant of such listing not later than 14 days after the relevant subscription date.
- (g) If immediately after any subscription date and after giving effect to the subscription rights exercised on that date subscription rights under the Warrants shall have been exercised in respect of 75 per cent. or more of the Ordinary Shares to which such rights relate the Company shall be entitled on giving not less than 14 days' notice in writing to the holders of the Warrants then outstanding to appoint a trustee who, provided that in his opinion the proceeds of sale after deduction of all costs and expenses incurred by him will exceed the costs of subscription, shall within the period of 14 days following the giving of such notice exercise such subscription rights as have not been exercised on the terms on which the same could have been exercised on the preceding subscription date and sell in the market the Ordinary Shares acquired on such subscription. The trustee shall distribute *pro rata* the proceeds less such subscription costs and such other costs and expenses to the persons entitled thereto as soon as practicable after such sale, provided that entitlements of under £2 shall be retained for the benefit of the Company.

- (h) Within seven days following the final subscription date the Company will appoint a trustee who, provided that in his opinion the net proceeds of sale after deduction of all costs and expenses incurred by him will exceed the costs of subscription, shall, within 14 days following the final subscription date, exercise such subscription rights as have not been exercised on the terms on which the same could have been exercised on the final subscription date and sell in the market the Ordinary Shares acquired on such subscription. The trustee shall distribute *pro rata* the proceeds less such subscription costs and such other costs and expenses to the persons entitled thereto within two calendar months of the final subscription date, provided that entitlements of under £2 shall be retained for the benefit of the Company.

2 Adjustment of Subscription Rights

- (a) After any allotment of fully paid Ordinary Shares by way of capitalisation of profits or reserves to holders of the Ordinary Shares on the register on a date (or by reference to a record date) on or before the final subscription date or upon any sub-division or consolidation of Ordinary Shares on a date (or by reference to a record date) on or before the final subscription date, the number and/or nominal value of Ordinary Shares to be subscribed on any subsequent exercise of the subscription rights will be increased or, as the case may be, reduced in due proportion and the subscription price will be adjusted accordingly, with effect from the record date for such capitalisation, sub-division or consolidation. On any such capitalisation, sub-division or consolidation the auditors for the time being of the Company shall certify the appropriate adjustments and, within 28 days thereafter, notice will be sent to each holder of a Warrant together with a Warrant in respect of any additional Ordinary Shares for which that holder is entitled to subscribe in consequence of such adjustments, fractional entitlements being ignored.

- (b) If, on a date (or by reference to a record date) on or before the final subscription date, the Company makes any offer or invitation (whether by rights issue or otherwise but not being an offer to which paragraph 3(f) below applies) to the holders of the Ordinary Shares, or any offer or invitation (not being an offer to which paragraph 3(g) below applies) is made to such holders otherwise than by the Company, then the Company shall, so far as it is able, procure that at the same time the same offer or invitation is made to the holders of the Warrants as if their subscription rights had been exercisable and had been exercised on the day immediately preceding the record date of such offer or invitation on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to sub-paragraph 2(a) above) provided that if the Directors so resolve in the case of any such offer or invitation made by the Company, the Company shall not be required to procure that the same offer or invitation is made to the holders of the Warrants but the subscription price shall be adjusted (i) in the case of an offer of new Ordinary Shares for subscription by way of rights at a price less than the market price at the date of announcement of the terms of the offer, by multiplying the subscription price in force immediately before such announcement by a fraction of which the numerator is the number of Ordinary Shares outstanding on the date of such announcement plus the number of Ordinary Shares which the aggregate of the amount (if any) payable for the rights and of the amount payable for the total number of new Ordinary Shares comprised therein would purchase at such market price and the denominator is the number of Ordinary Shares outstanding on the date of such announcement plus the aggregate number of Ordinary Shares offered for subscription; and (ii) in any other case, in such manner as the auditors for the time being of the Company shall certify to be appropriate. Any such adjustment shall become effective as at the record date for the offer or invitation. For the purposes of this provision "market price" shall mean the average of the mean of the quotations published in the Daily Official List of The Stock Exchange for one Ordinary Share for the five consecutive business days ending on the business day immediately preceding the day on which the market price is to be ascertained. The Company shall give notice to holders of the Warrants within 28 days of any adjustment made pursuant to this sub-paragraph (b).

3 Other Provisions

So long as any subscription rights remain exercisable:-

- (a) The Company shall not (i) make any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid Ordinary Shares or (ii) issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares issued to the holders of its Ordinary Shares or (iii) on or by reference to a record date falling within the period of six weeks ending on any subscription date make any such offer or invitation as is referred to in paragraph 2(b) above (except by extending to holders of the Warrants any such offer as may be made by a third party).
- (b) The Company shall not in any way modify the rights attached to its existing Ordinary Shares as a class (but nothing herein shall restrict the right of the Company to increase or to consolidate or sub-divide its share capital), or create or issue any new class of equity share capital (as defined in section 736 of the Companies Act 1985) which carries rights as regards voting, dividend or return of capital more favourable than those attaching to the Ordinary Shares.
- (c) The Company shall not issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves nor make any such offer as is referred to in paragraph 2(b) above if as a result the Company would on any subsequent exercise of the subscription rights be obliged to issue Ordinary Shares at a discount.

- (d) The Company shall not (except with the sanction of an extraordinary resolution of the holders of the Warrants) reduce its share capital or any uncalled or unpaid liability in respect of any of its share capital or (except as authorised by sections 130 to 134 (inclusive) or 170 of the Companies Act 1985) any share premium account or capital redemption reserve.

- (e) The Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all subscription rights remaining exercisable.

- (f) If at any time an offer or invitation is made by the Company to the holders of the Ordinary Shares for the purchase by the Company of any of its Ordinary Shares, the Company shall simultaneously give notice thereof to the holders of the Warrants and each such holder shall be entitled, at any time whilst such offer or invitation is open for acceptance, to exercise his subscription rights on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to paragraph 2 above).

- (g) If at any time an offer is made to all Ordinary Shareholders (or all such Ordinary Shareholders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may be cast on a poll at a general meeting of the Company has or will be vested in the offeror and/or such persons or companies as aforesaid, the Company shall give notice to the holders of the Warrants of such vesting within 14 days of its becoming so aware, and each such holder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his subscription rights on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to paragraph 2 above); the publication of a scheme of arrangement under the Companies Act 1985 providing for the acquisition by any person of the whole or any part of the issued ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this sub-paragraph (g).

- (h) If an order is made or any effective resolution is passed for winding up the Company (except for the purpose of reconstruction, amalgamation or unification on terms sanctioned by an extraordinary resolution of the holders of the Warrants), each holder of a Warrant will (i) in such winding up and on the basis that all Warrants then unexercised had been exercised in full and the subscription moneys therefor had been received in full by the Company, there would be a surplus available for distribution amongst the holders of the Ordinary Shares which, on such basis, would exceed in respect of each Ordinary Share a sum equal to the subscription price) be treated as if immediately before the date of such order or resolution his subscription rights had been exercisable and had been exercised in full, on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to paragraph 2 above), and shall accordingly be entitled to receive out of the assets available for the liquidation *pari passu* with the holders of the Ordinary Shares such a sum as he would have received had he exercised his subscription rights in full and become the holder of the Ordinary Shares to which he would have become entitled by virtue of such subscription after deducting a sum per Ordinary Share equal to the subscription price; subject to the foregoing all subscription rights shall lapse on liquidation of the Company.

- (i) The Company shall not change its financial year end from 31st October without giving to the holders of the Warrants not less than 2 months' notice thereof and of the new date to be substituted for 31st October in paragraph 1(a) above.

- (j) The Company shall not grant (or agree to grant) any option in respect of or create any rights of subscription for any Ordinary Shares of the Company the nominal amount of which, together with the aggregate nominal amount of any Ordinary Shares over which options or rights of subscription shall be subsisting at the date of such grant or creation, would exceed in the aggregate, leaving out of account the subscription rights conferred by the Warrants, 10 per cent. of the nominal amount of the Ordinary Shares then in issue, nor (except with the sanction of an extraordinary resolution of the holders of the Warrants) will the Company grant (or agree to grant) any option in respect of or create any rights of subscription for, or issue any loan capital carrying rights of conversion into, Ordinary Shares if the price at which any such option or right is exercisable is lower than the subscription price for the time being.

Provided that nothing herein shall (i) prevent the Company purchasing any of its Ordinary Shares for the time being in issue on such terms as it may consider expedient or (ii) require the sanction of an extraordinary resolution of the holders of the Warrants for any such purchase.

4 Modification of Rights

All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the holders of the Warrants. All the provisions of the Articles of Association for the time being of the Company as to general meetings shall *mutatis mutandis* apply as though the Warrants were a class of shares forming part of the capital of the Company but so that (i) the necessary quorum shall be the holders (present in person or by proxy) entitled to acquire one-third in nominal amount of the Ordinary Shares attributable to such outstanding Warrants, (ii) every holder of a Warrant present in person or by proxy at any such meeting shall be entitled on a poll to one vote for every Ordinary Share for which he is entitled to subscribe, (iii) any holder of a Warrant present in person or by proxy may demand or join in demanding a poll, and (iv) at any adjourned meeting those holders of Warrants present in person or by proxy shall be a quorum (whatever the number of Warrants held or represented by them).

5 Transfer

Each Warrant will be registered and will be transferable in whole or in part by instrument of transfer in any usual or common form, or in any other form which may be approved by the Directors. No transfer of a right to subscribe for a fraction of an Ordinary Share of the Company may be effected.

6 General

The Company will concurrently with the issue of the same to its Ordinary Shareholders send to each registered holder of a Warrant (or in the case of joint holders to the first-named) a copy of each published annual report and accounts of the Company, together with all documents required by law to be annexed thereto, and copies of all other documents issued by the Company to Ordinary Shareholders.

For the purposes of these Particulars, "extraordinary resolution of the holders of the Warrants" means a resolution proposed at a meeting of the holders of the Warrants duly convened and held and passed by a majority consisting of not less than three-fourths of the votes cast whether on a show of hands or on a poll.

Appendix II

General Information

1 History and Share Capital

- (a) The Company was incorporated in England and Wales as a private limited company under the Companies Act 1985 ("the Act") on 21st August, 1985 (registered number 1940906) with an authorised share capital of £100 divided into 100 Ordinary Shares of £1 each of which two were issued to the subscribers to the Memorandum of Association.

- (b) On 16th September, 1985 resolutions of the Company were passed:-

- (i) whereby each Ordinary Share of £1 in the Company, whether issued or unissued, was sub-divided into four Ordinary Shares of 25p each and the authorised share capital of the Company was increased to £100,000 by the creation of a further 399,600 Ordinary Shares of 25p each;
- (ii) to the effect that the Company should be converted into a public limited company; and
- (iii) whereby the Company amended its Memorandum of Association and adopted new Articles of Association (the Articles of Association were subsequently amended on 2nd October, 1985).

- (c) On 16th September, 1985, following the passing of the resolutions referred to in (b) above, the subscribers to the Memorandum of Association transferred seven Ordinary Shares to Witan and one to Witan and to a third person as nominee for Witan jointly (all of which have been paid up as to 100p per share by Witan) and Witan subscribed for a further 199,992 Ordinary Shares of 25p each at 100p per share. Such Ordinary Shares were allotted to Witan against an irrevocable undertaking by Witan which has undertaken to pay 100p for each such share not later than 10th October, 1985. Under such arrangements Witan is entitled to Warrants to subscribe for 20,000 Ordinary Shares of 25p each on terms identical to those set out in Appendix I.

- (d) The Company was incorporated with the name Trushelfco (NO. 840) Limited. On 1st October, 1985 the Company was re-registered as a public limited company and the name of the Company was changed to Strata Investments plc.

- (e) On 2nd October, 1985 a resolution of the Company was passed further increasing the authorised share capital to £4,180,000 by the creation of a further 16,320,000 Ordinary Shares of 25p each.

- (f) By resolution of the Company passed on 2nd October, 1985 the Directors were, pursuant to section 95 of the Act, given authority and empowered, in accordance with section 80 of the Act as if section 89(1) thereof did not apply, to allot and to make offers or agreements to allot relevant securities up to the amount of the increased authorised share capital (both such authorities expiring at the conclusion of the first annual general meeting of the Company). On or about 10th October, 1985 the Directors or a Committee thereof will by resolution allot the Ordinary Shares (with Warrants attached) now being offered.

- (g) The Company will give notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to section 266 of the Act.

- (b) Subject to any special rights or restrictions attaching to any shares or any class of shares issued by the Company in the future and subject to the rights of the holders of the Warrants, the holders of fully paid Ordinary Shares are entitled *pari passu* amongst themselves, but in proportion to the amount paid up on the Ordinary Shares held by them, to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of the liquidation of the Company.

- (c) Save as disclosed in sub-paragraphs (a) and (e) above, no share or loan capital of the Company has been issued for cash or for a consideration other than cash and no such capital of the Company is now proposed to be issued save as referred to herein.

- (d) Save as disclosed in paragraph 4 below, no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any of its share or loan capital.

- (e) Save as disclosed in sub-paragraph (c) above, no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.

- (f) Save for the issue of shares referred to herein, no material issue of shares (other than to shareholders *pro rata* to existing holdings) will be made within one year of the date of this document and no issue will be made which would effectively alter the control of the Company without, in either case, prior approval of the Company in General Meeting.

2 Indebtedness

At the date of this document the Company has no loan capital (including term loans) outstanding, or created but unissued and no outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3 Memorandum and Articles of Association

- (a) The Memorandum of Association of the Company provides that the Company's principal objects are to undertake the business of an investment trust company in any part of the world and to invest the capital and other moneys of the Company in the purchase or upon the security of shares, stocks, debentures, debenture stocks, bonds, bills, certificates, notes, currency, mortgages, obligations and securities of any kind issued or guaranteed by any company, corporation or undertaking of any nature or by any government, state, dominion, colony, sovereign ruler, commissioners, trust, public, municipal, local or other authority or body of whatsoever nature, whether at home or abroad. The objects of the Company are set out in full in Clause 4 of the Memorandum of Association which is available for inspection at the addresses specified in paragraph 9 below.

- (b) The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:-

Voting Rights

Subject to disenfranchisement in the event of (i) non-payment of calls or other moneys due and payable in respect of the shares or (ii) non-compliance with a statutory notice requiring disclosure as to beneficial ownership, and subject to any special terms as to voting upon which any shares may be issued or may for the time being be held (no such shares being in issue) on a show of hands every member who is present in person at a general meeting of the Company shall have one vote, and on a poll every member who is present in person or by proxy shall have one vote for every 25p nominal amount of share capital of which he is the holder.

Transferability of Shares

The Ordinary Shares are in registered form. Any member may transfer all or any of his shares by an instrument of transfer in the usual form or in any other form which the Directors may approve. The Directors may, in their absolute discretion and without assigning any reason therefor, decline to register any transfer of any share which is not a fully paid share. The Articles of Association contain no restriction on the transfer of fully paid shares provided the transfer (i) is lodged in the registered office or such other place as the Directors may appoint, accompanied by the relative share certificate and such other evidence of ownership as the Directors may require, (ii) is only in respect of one class of shares and (iii) is in favour of not more than four transferees.

Variation of Rights

Subject to the Act the special rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class.

Changes in Capital

The Company may by ordinary resolution:-

- (i) increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide its share capital into shares of a larger amount;
- (iii) sub-divide its share capital into shares of a smaller amount;
- (iv) cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

Subject to confirmation by the Court (as required by the Act), the Company may by special resolution reduce its authorised and issued share capital or any capital redemption reserve or any share premium account in any manner.

Untraced Shareholders

The Company may sell any shares in the Company of a member who is untraceable if, during a period of 12 years, at least three dividends in respect of the shares in question have become payable.

Dividends

Any dividend unclaimed after a period of 12 years from the date of its declaration shall be forfeited and shall revert to the Company.

Capital Reserve

Any surplus over the book value derived from the sale or realisation of any capital asset shall be credited to a Capital Reserve or applied for some capital purpose. There shall also be credited to such reserve, or applied as aforesaid, any other sums representing accretions to capital assets, including in particular any sums resulting from the writing up of the book values of any capital assets. Such reserve shall not be available for dividend but may be used to meet depreciation of capital assets or for the improvement of capital assets or for such other capital purposes as the Directors may think fit. Any taxation arising in consequence of the disposal of any capital asset and any deficit below book value resulting on the disposal of any capital asset may be debited in whole or in part against such reserve.

Directors

- (i) Save as provided in sub-paragraph (ii) below, a Director shall not vote (nor be counted in the quorum) on any resolution of the Directors in respect of any contract or arrangement in which he is to his knowledge materially interested. If he shall so vote his vote shall not be counted. The Company may by ordinary resolution suspend or relax such provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of the Articles of Association.

- (b) A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:-

- (i) the giving of any security or indemnity to him in respect of money lent or obligations undertaken by him for the benefit of the Company;
- (ii) the giving of any security to a third party in respect of a debt or obligation of the Company which he has himself guaranteed or secured in whole or in part;
- (iii) the subscription for or underwriting of any shares, debentures or other securities of the Company by him;
- (iv) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (v) any contract or arrangement concerning any other company (not being a company in which he is beneficially interested in one per cent. or more of the voting share capital) in which he is interested directly or indirectly;
- (vi) any proposal concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates;
- (vii) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which he benefits in a similar manner as the employees and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom such arrangement relates.

- (iii) Each of the Directors may be paid a fee at such rate as may from time to time be determined by the Directors provided that the aggregate of all such fees so paid to the Directors shall not exceed £50,000 per annum, or such higher amount as may from time to time be determined by ordinary resolution of the Company. The Company may repay to any Director all such reasonable expenses as he may incur in or about the business of the Company or in the discharge of his duties as a Director. Any Director who by request performs special services or goes or resides abroad for any purpose of the Company may be paid such extra remuneration as the Directors may determine. Any Director who is appointed to any executive office shall be entitled to receive such remuneration as the Directors may determine.

- (iv) The Directors may procure the payment of pensions and other benefits to, among others, any Director or former Director or persons connected with them.

- (v) No person shall be disqualified from being appointed a Director and no Director shall be required to vacate his office by reason only of the fact that he has attained the age of 70 years or any other age, nor shall it be necessary to give special notice or comply with any other special formality in connection with the appointment of a Director over a specified age save that in the case of the nomination of a Director who has attained the age of 70 his age shall be stated in the notice convening the general meeting (or in any accompanying document) at which he is proposed to be elected or re-elected.

Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, but it shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries, so far as by such exercise it can secure) that the aggregate amount remaining undischarged of all moneys borrowed by the Company and its subsidiaries for the time being (exclusive of intra-group borrowings) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to twice the Adjusted Capital and Reserves (as defined in Article 1(9) of the Articles of Association).

4 Agreement with Cazenove & Co.

- (a) Expenses of Issue and Application of Net Proceeds
Cazenove & Co. has, pursuant to an Agreement dated 2nd October, 1985, agreed with the Company and Henderson Administration, subject, *inter alia*, to the Ordinary Shares (with Warrants attached) now being offered being admitted by the Council of The Stock Exchange to the Official List not later than 15th October, 1985 (subject to posting of Letters of Allotment) to procure subscribers for, or in default thereof to subscribe, such of the 15,000,000 Ordinary Shares as are not taken up pursuant to the Offer for Subscription for a commission of 2 per cent. (exclusive of Value Added Tax) of the aggregate issue price of 12,200,000 of such Ordinary Shares (with Warrants attached), out of which Cazenove & Co. will pay a commission of 1.25 per cent. of such issue price to sub-underwriters or persons (other than Witan) who have, prior to the date of this document, indicated their intention to apply for Ordinary Shares pursuant to the Offer for Subscription. The Agreement contains certain warranties and indemnities given by the Company and Henderson Administration and may be terminated by Cazenove & Co. in certain exceptional circumstances.
- (b) The Company will pay the costs and expenses of and incidental to the issue, including all accountancy and legal expenses, capital duty of £152,000, The Stock Exchange listing fee, the above-mentioned commission to Cazenove & Co., the costs of printing, advertising and distributing this document and the fees and expenses of the Receiving Bankers and the Registrars and brokerage of 0.5 per cent. where applicable (see "Terms and Conditions of Application" below) and all applicable Value Added Tax. The aggregate costs and expenses payable by the Company (excluding Value Added Tax where applicable) are estimated to be £285,000. After meeting these expenses, the net proceeds of the issue, which will be available to the Company for investment, are estimated to amount to approximately £14,415,000.

5 Directors' and Other Interests

- (a) The addresses of the Directors are set out below. The Directors, including their immediate families, intend to make applications for the number of Ordinary Shares (with Warrants attached) set out below:-

Name and address of Director	Ordinary Shares of 25p each (with Warrants attached)	
	Beneficial	Non-beneficial
M. E. R. Ailsopp, 9 Sackville Street, London W1.	—	—
S. R. Burley, 6 St James's Square, London SW1.	1,000	—
G. J. Chandler, Stormont Court, Godden Green, Sevenoaks, Kent.	20,000	—
H. M. Henderson, 12 Tokenhouse Yard, London EC2.	10,000	5,000
R. W. Smith, 26 Finsbury Square, London EC2.	5,000	—

Save as aforesaid, at the date of this document, neither the Directors nor their immediate families have any interests in the ordinary share capital of the Company.

- (b) There are no service contracts in existence between the Company and any of its Directors nor are any such contracts proposed.

- (c) Mr H. M. Henderson is a partner in Cazenove & Co. who have entered into the Agreement with the Company referred to in paragraph 4(a) above. Mr. R. W. Smith is a director of Henderson Administration. Save as disclosed in this sub-paragraph, no Director is materially interested in any contract or arrangement subsisting at the date hereof which is unusual in its nature or conditions or significant in relation to the business of the Company.

- (d) It is estimated that the aggregate emoluments of the Directors for the period from incorporation until 31st October, 1986 will not exceed £12,000.

- (e) Save as disclosed in this paragraph, no Director has any interest, direct or indirect, in the promotion of the Company or in any assets which have been or are proposed to be acquired or disposed of or leased to the Company.

- (f) Of the intended applications for 11,200,000 Ordinary Shares (with Warrants attached) of which the Directors are aware, one will be made by Witan for 2,800,000 of the Ordinary Shares (with Warrants attached) which, together with the Ordinary Shares already owned by Witan, would represent 19.7 per cent. of the Company's issued share capital following this Offer for Subscription.

- (g) Other than Witan no person is, directly or indirectly, interested in five per cent. or more of the ordinary share capital of the Company.

6 Taxation

Following the payment of a dividend, the Company has to remit to the Board of Inland Revenue an amount of advance corporation tax ("ACT") at a rate which is related to the basic rate of income tax and is currently 37/100ths of the dividend paid. Accordingly, the ACT relating to the dividend currently equals 30 per cent. of the sum of the cash dividend plus the ACT. To the extent that the Company has received dividends in respect of which ACT has been paid, it has no requirement to account for ACT itself.

For shareholders resident in the United Kingdom, the ACT paid is available as a tax credit which individual shareholders who are so resident may set off against their total income tax liability or, in appropriate cases, reclaim in cash. A United Kingdom resident corporate shareholder will not be liable to United Kingdom corporation tax on any dividend received and may be able to reclaim the associated tax credit in appropriate cases.

Whether shareholders in the Company who are resident in countries other than the United Kingdom are entitled to payment from the Board of Inland Revenue of any part of the tax credit in respect of dividends on such shares, depends in general on the provisions of any double tax convention or agreement which exists between such countries and the United Kingdom. Persons who are not resident in the United Kingdom should consult their own tax advisers as to whether they are entitled to reclaim any part of the tax credit, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax in the jurisdiction in which they are resident.

7 Material Contracts

- (a) The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and are or may be material.

Dated 2nd October, 1985, between the Company, Henderson Administration and Cazenove & Co., being the Agreement referred to in paragraph 4(a) above.

- (b) Dated 2nd October, 1985, between the Company and Henderson Administration whereby Henderson Administration has agreed to act as Investment Managers and Secretaries to the Company for a quarterly fee payable in arrears at the rate of 0.25 per cent. of the value of the funds under management (as defined) of the Company at the end of each quarterly period. The Agreement contains provisions indemnifying Henderson Administration against liabilities incurred except where due to its negligence or wilful default. The Agreement is subject to termination by not less than two years' notice by either party expiring on or after 31st October, 1990 and by notice by either party if the Company if the Agreement is terminated as a result of its liquidation or if this occurs other than as a consequence of the passing of an Extraordinary Resolution to wind up the Company in 1996 or any fifth year thereafter as mentioned in the section entitled "Duration of the Company" above.

8 General

- (a) The Company has not commenced business and has no subsidiaries.
- (b) Henderson Administration is the founder and promoter of the Company. Save as disclosed in paragraph 7(b) above no amount or benefit has been paid or given to the promoter and none is intended to be paid or given.
- (c) The Company is not engaged in any litigation or arbitration and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.
- (d) Deloitte Haskins & Sells have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report set out above in the form and context in which it is included.
- (e) The principal place of business of the Company is at 26 Finsbury Square, London EC2A 1DA. The Company does not have, nor has it had since its incorporation, any employees.

9 Documents for Inspection

Copies of the following documents will be available for inspection at the offices of Slaughter and May, 35 Abchurch Lane, London EC4N 3DB during normal business hours on any weekday (excluding Saturdays and public holidays) for 14 days after publication of this document:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the report of Deloitte Haskins & Sells and their written consent referred to above; and
- (c) the contracts specified under "Material Contracts" above.

Dated 3rd October, 1985.

Terms and Conditions of Application

- (a) Acceptance of applications will be conditional upon permission being granted for the Ordinary Shares (with Warrants attached) of the Company to be admitted to the Official List of The Stock Exchange not later than 15th October, 1985 subject only to posting of Letters of Allotment. Application moneys will be returned (without interest) if such permission is not granted by that date and, in the meantime, will be retained by The Royal Bank of Scotland plc (the "Receiving Bankers") in a separate account.

- (b) The Company reserves the right to reject in whole or in part or scale down any application and, in particular, multiple or suspected multiple applications and to present for payment any cheques or banker's drafts received. If any application is not accepted in whole or in part or is scaled down the application moneys or, as the case may be, the balance thereof, will be returned (without interest) by returning the applicant(s)' cheque or banker's draft or by crossed cheque in favour of the applicant(s) through the post at the risk of the person(s) entitled thereto.

- (c) By completing and delivering an Application Form, you (as the applicant(s)):-

- (i) offer to subscribe for the number of Ordinary Shares (with Warrants attached) of the Company specified in your Application Form (or for such smaller number for which the application is accepted) subject to the Prospectus relating to the Company dated 3rd October, 1985 (the "Prospectus"), including these terms and conditions and the Memorandum and Articles of Association of the Company;

- (ii) authorise the Receiving Bankers to send a Letter of Allotment for the number of Ordinary Shares (with Warrants attached) for which your application is accepted, and/or a crossed cheque for any moneys returnable by post, at the risk of the person(s) entitled thereto, to your address (or that of the first-named applicant) as set out in your Application Form and to procure that your name (together with the name(s) of any other joint applicant(s)) is/are placed on the Register of Members of the Company in respect of such Ordinary Shares (with Warrants attached) of the Company the entitlement to which has not been duly renounced;

- (iii) agree that, in consideration of the Company agreeing that it will not prior to 11th October, 1985 issue or allot any of the Ordinary Shares (with Warrants attached) of the Company the subject of this offer to any person other than by means of the procedures referred to in the Prospectus, your application may not be revoked until after 11th October, 1985 and that this paragraph shall constitute a collateral contract between you and the Company which will become binding upon despatch by post to or, as the case may be, receipt by the Receiving Bankers of your Application Form;

- (iv) warrant that your remittance will be honoured on first presentation;

- (v) agree that any Letter of Allotment and any moneys returnable to you may be retained by the Receiving Bankers pending clearance of your remittance;

- (vi) agree that all applications, acceptances of applications and contracts resulting therefrom under this offer shall be governed by and construed in accordance with English Law;

- (vii) warrant that, if you sign the Application Form on behalf of somebody else, you have due authority to do so;

- (viii) confirm that in making such application you are not relying on any information or representation in relation to the Company other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof shall have any liability for any such other information or representation.

- (d) Acceptance of applications will be effected at the election of the Company either by notification of the basis of allocation to The Stock Exchange or by the determination of the number of Ordinary Shares (with Warrants attached) of the Company for which applications are accepted pursuant to the arrangements between the Company and the Receiving Bankers.

- (e) All documents and cheques sent by post will be at the risk of the person(s) entitled thereto.

- (f) No person receiving a copy of the Prospectus, or an Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation to offer, or a bid, or should be in any event use such documents, in the relevant territory, such as an invitation or offer could lawfully be made to him or such Form could lawfully be used without contravention of any registration or other legal requirements. Any person outside the United Kingdom wishing to make an application hereunder must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory.

- (g) A commission of 0.5 per cent. plus Value Added Tax will be paid to Stockbrokers and Recognised Banks on allotments made in respect of applications bearing their stamp and Value Added Tax registration number (if applicable). This commission will not, however, be paid in respect of (i) allotments made on applications from those persons who have prior to the date of this document indicated their intention to make applications to the extent that they apply for the Ordinary Shares (with Warrants attached) for which they have so indicated their intention to apply or (ii) allotments which arise out of an underwriting commitment or (iii) the allotment made on the application to be made by Witan for 2,800,000 Ordinary Shares (with Warrants attached).

Copies of the Prospectus (which includes listing particulars with regard to Strata Investments plc in accordance with The Stock Exchange (Listing) Regulations 1984) and the Application Form can be obtained between 7th October, 1985 and 21st October, 1985 from:-

HENDERSON ADMINISTRATION LIMITED,
26 Finsbury Square,
London EC2A 1DA

CAZENOVE & CO.,
12 Tokenhouse Yard,
London EC2R 7AN
and
The Stock Exchange

THE ROYAL BANK OF SCOTLAND plc,
67 Lombard Street,
London EC3P 3DL

Procedure for Application

- 1 Insert in Box 1 (in figures) the number of Ordinary Shares (with Warrants attached) for which you are applying. Applications must be for a minimum of 100 Ordinary Shares or in integral multiples thereof.

- 2 Put in Box 2 (in figures) the amount of your cheque or banker's draft. The amount of your cheque or banker's draft should be equal to the subscription price of 100p per share multiplied by the number of shares inserted in Box 1.

- 3 Sign and date the Application Form in Box 3.

- The Application Form may be signed by someone else on your behalf (and/or on behalf of any joint applicant(s)) if duly authorised to do so, but the power(s) of attorney must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

- 4 Put your full name and address in BLOCK CAPITALS in Box 4.

- 5 You may apply jointly with other persons.

- You must then arrange for the Application Form to be completed by or on behalf of each joint applicant (up to a maximum of three other persons). Their full names and addresses should be put in BLOCK CAPITALS in Box 5.

- 6 Box 6 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 4 and sign in Box 3).

- If anyone is signing on behalf of any joint applicant(s), the power(s) of attorney must be enclosed for inspection.

- 7 You must pin a separate cheque or banker's draft to the Application Form. Your cheque or banker's draft must be made payable to The Royal Bank of Scotland plc for the amount payable on application inserted in Box 2 and should be crossed "Not Negotiable".

- No receipt will be issued for this payment, which must be solely for this application.

- Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be presented for payment through the clearing facilities provided by the members of those Clearing Houses. The cheque or banker's draft must show the appropriate sorting code number in the top right hand corner.

- Applications may be accompanied by a cheque drawn by someone other than the applicant(s), but any moneys to be returned will be sent by crossed cheque in favour of the person(s) named in Box(es) 4 and 5).

- You must send the completed Application Form by post, or deliver it by hand, to The Royal Bank of Scotland plc, New Issues Department, P.O. Box 425, 67 Lombard Street, London EC3P 3DL, so as to be received not later than 10.00 a.m. on 16th October, 1985.

- If you post your Application Form, you are recommended to use first class post and allow at least two days for delivery.

Basis of Acceptance and Dealing Arrangements

The Application List will open at 10.00 a.m. on 10th October, 1985 and may be closed at any time thereafter. It is expected that Letters of Allotment will be posted to successful applicants not later than 15th October, 1985 and that dealings in the Ordinary Shares (with Warrants attached) will commence on 16th October, 1985.

Arrangements have been made for registration of all the Ordinary Shares (with Warrants attached) now offered for subscription, free of stamp duty and registration fees, in the names of subscribers or persons in whose favour Letters of Allotment are duly renounced provided that, in cases of renunciation, Letters of Allotment (duly completed in accordance with the instructions contained therein) are lodged for registration by 3.00 p.m. on 22nd November, 1985. Share certificates and Warrants will be despatched on 20th December, 1985.

Application Form**STRATA INVESTMENTS plc**

(Incorporated in England and Wales under the Companies Act 1985. Registered number 1940906)



Offer for Subscription of 15,000,000 Ordinary Shares of 25p each (with Warrants attached) in Strata Investments plc at 100p per share, payable in full on application

- 1 I/We offer to subscribe Ordinary Shares (with Warrants attached) in Strata Investments plc (or such lesser number of shares in respect of which this application may be accepted) at 100p per share on the terms and subject to the conditions attaching to this application

- 2 and I/we attach a cheque or banker's draft for the amount payable, namely

- 3 Dated Signature

PLEASE USE BLOCK CAPITALS

4 Mr., Mrs., Miss or title Forename(s) (in full)

Surname

Address (in full)

Postcode

- 7 ☐ Pin here your cheque/banker's draft for the amount in Box 2

FOR OFFICIAL USE ONLY					
1. Acceptance No.	2. Shares allocated	3. Amount received			
4. Amount payable	5. Amount returned	6. Cheque Number			

- 5 Fill in this section only when there is more than one applicant. The first or sole applicant should complete Box 4 and sign in Box 3. Insert below only the names and addresses of the second and subsequent applicants, each of whose signatures is required in Box 6.

PLEASE USE BLOCK CAPITALS

Mr., Mrs., Miss or title Forename(s)

Surname

Address

Postcode

Mr., Mrs., Miss or title Forename(s)

Surname

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Mr., Mrs., Miss or title Forename(s)

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Mr., Mrs., Miss or title Forename(s)

Surname

TECHNOLOGY

Polyurethane shows its paces in footwear

Lucia van der Post
on how the shoe industry has taken to using a highly versatile plastic

FASHION, the great dictator of the shoe industry, makes relentless demands for new colours and finishes of product at affordable prices, and increasingly the industry has come to rely on polyurethane to meet that constant call for change.

The traditional high-fashion, expensive end of the shoe market remains much as it has always been. It is the manufacture of sports and leisure shoes that has been entirely revolutionised by polyurethane. It is only because of polyurethane, which was first used for

shoe soles 20 years ago, that we can get the sports shoes we want at the sort of prices we are prepared to pay. It has transformed the cost of manufacture so that in the most highly automated and productive factories, it can cost as little as a few pence to produce a pair of soles.

Where once the traditional shoemaker made a pair of shoes from start to finish, more and more manufacturers are now setting themselves up as specialists in components. Some factories concentrate on producing nothing but soles—thin ones, thick ones, once that look like cork or leather. Others produce uppers alone and there are also businesses which do nothing but assemble components bought.

Polyurethane seems to be the ideal material for the low-cost shoe that the modern sports and leisure-wear market demands. It is an exceedingly versatile material which allows the manufacturer to achieve an

almost infinitely variable density or rigidity.

This makes it possible to achieve just the degree of flexibility or rigidity that the particular shoe demands. Nowadays comfort counts, and most sports shoes are formed from at least two layers of differing density which together support the foot in a way that no other material could match.

But it is in meeting buyers' longings to be highly fashionable that polyurethane comes up trumps. The moulding process means that a wide range of finishes can be incorporated into the sole design at very little extra cost.

Already, exceedingly realistic leather look-alike finishes have been achieved and there seems no end to the potential finishes in sight. Besides cork, shell, silk, velvet and shiny lacquer, there are lots more ideas in the pipeline. Things have come a long way since the early high platform shoes that heralded

the arrival of polyurethane in the shoe market.

The business is a highly competitive one. Customers want a steady stream of new ideas, new colours, new effects and new finishes.

One company which has made a speciality of adapting speedily to customer demand is ICI Degendorf, a subsidiary of Deutsche ICI.

Though helped by its access to ICI's vast technical expertise, much of its success lies in the fact that it has deliberately kept its operation small. Otto Ziegler, its director, feels one of his company's chief assets is its high degree of specialism in its field and its ability to adapt faster and more willingly than its competitors.

The foundation of its success, of course, is its chemical specifications, but it has won a strong reputation for its willingness to work with the client to help him produce the product he has in mind.

ICI Degendorf now offers systems for both direct soiling on to uppers as well as unit soles. It was the first to develop the two-density sole system which means a sole can consist of two different degrees of thickness and density. The shoe cap, therefore, have a very tough hard-wearing outer surface but cushion the foot with a softer, more comfortable inner one. It also makes it possible to produce two-colour soles.

Though polyurethane is most used at the leisure end of the shoe industry it has a very serious role to play in enabling manufacturers to provide efficient footwear to less developed countries at prices that the indigenous populations can afford. It is no exaggeration to say that in many of these countries much of the population would go unshod if polyurethane footwear systems had not been developed.

Why plastic is good for the sole

Alan Cane

IT MAY, as Lucia van der Post suggests, cost only a few pence to manufacture a simple polyurethane sole, but most sports enthusiasts are used now to paying substantial sums for shoes which will provide the support and cushioning they need.

You can spend £100 a pair, in fact, if you want the top-of-the-range model, the 1300, from the U.S. company New Balance. What makes a running shoe different from, say, a tennis shoe is the amount of cushioning between the outsole—generally built of hard carbon rubber—and the insole.

Commonly there is a midsole and a heel wedge both made of ethyl vinyl acetate (EVA), a foamed (air bubble-filled)

material which in different densities provides all the cushioning a runner could want.

But it starts to deteriorate from the moment the shoe is first used. It loses its spring with wear and can collapse completely. One answer is to use compression moulded EVA which results in a different shape of air bubble and a longer lasting material. New Balance has gone a step further. It encapsulates its compression moulded EVA in the ubiquitous polyurethane. The cost of the shoe results from the quality of the materials used and the technical difficulties involved in bonding the EVA and the polyurethane to make a long lasting, stable sole.

Nike, an innovative U.S.-based company, which makes

shoes much favoured by the world's top sports people, has a different approach. It encapsulates an air cushion a little like a miniature "Toll" in the midsoles of its shoes. The channels of the cushion are filled with a gas under pressure—the surrounding material can be EVA or polyurethane depending on the sport the shoe is intended for. Nike has recently created a stir with advertisements for a "running sock," little more than a fabric sock fastened to the foot with straps, coupled to a full-length air sole.

The sock is made of "ladies girdle fabric," according to Mr Brendan Foster, the former UK international athlete who heads Nike in the UK. The sole is polyurethane. Already in use by international runners, the



Pam Shriver in action at Wimbledon. Nike tennis shoes feature air cushions in the heel.

sock is expected to sell for about \$50.

Nike running shoes in the \$30-£70 bracket are tending towards full-length air soles. Its tennis and basketball shoes have air wedges in the heels for comfort and next year it intends to sell soccer boots with air wedge heels.

A more traditional approach to cost is seen in sports shoes made by the UK company, Reebok. It makes its aerobic shoes in the Far East but its high performance shoes in a small Bolton factory staffed by only 35 people.

The secret is quality materials and hand craftsmanship.

There is, for example, no computer stitching, cutting and manipulation of the shoe sections are all by hand.

Reebok has had its share of innovation, however. Its aerobic shoes are crafted from garment, as opposed to shoe quality, leather only a millimetre or so thick. To prevent it collapsing, it is bonded to a fine nylon backing using a proprietary bonding process.

It has also pioneered the use of polyurethane for the plate which holds the mounting on a spiked track shoe. Reebok claims it is as strong as, and will outlast, the nylon conventionally used.

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A key to compatible computers

WHILE THE computing industry and the world's standards bodies grapple with the problems of finalising standards for computer communications, a Canadian company recently arrived in London has developed a system for translating documents from one maker's format to another.

Lack of compatibility has caused problems for companies using word processors from different manufacturers. Often little or no thought was given to future communications at the time of purchase, and users simply bought the best machine to suit their various purposes.

Large companies installing the machines at different sites or even in different departments on the same site have rapidly discovered that direct document interchange is usually impossible.

Keyword Office Technologies of Calgary, Alberta, has developed Com-File, which applies some document conversion software it recently developed to telecommunications facilities the user already employs, like FAX, local and wide area networks. The system first converts the document into the Com-File format, then transmits it to its original format at the other end.

In the UK, Keyword is at Anchor House, Britten Street, London SW3 (01 437 6960).

Plessey boosts its IDX exchange

PLESSEY has announced an improved version of its IDX (integrated digital exchange), a form of company telephone exchange or PABX which was introduced in 1983 and has now achieved sales of 1,600 units.

The new PABX is called ISDX, the "S" standing for "services." As well as exchange equipment, ISDX includes a number of new terminals which allow voice, text, data, facsimile, telex and, ultimately, video services to be integrated and switched from one terminal direct to another within a company.

The exchange hinges on the idea that once information of whatever kind is converted to digital form, it can be switched between screen/keyboards terminals exactly as telephone calls are at the moment. This is because, once converted, all these signals are in exactly the same form—basically a stream of on-

off pulses—and can be handled in the same way by digital switches inside the exchange.

Such services have been impossible up to now because in their original "analogue" form, the signals are very different and need different circuits and equipment to handle them.

Developments like this are going on in all the world's major telecommunications companies—hand-in-hand with similar plans for the public telephone network called ISDN, or integrated services digital network.

ISDN is dependent on a massive programme by British Telecom and its counterparts throughout the world to install the necessary digital exchanges in the public network. These information exchanges, called System X in the UK, will have a dramatic effect on public communications once they are widely installed.

In place of separate systems

for voice (the ordinary telephone), data (data and packet switching, for example), and telex, all will be handled by one network with common, digital public exchanges.

Person-to-person communication of various kinds, information retrieval, home security systems, financial transactions, education and entertainment will all be handled by the same, unified system.

In the meantime—it will be some years before the program is complete—Plessey and others have realised that such facilities can be provided in advance within private business premises.

They have designed the systems so that, when the time comes, information will be able to flow out of a company's PABX, across the public network into a similar PABX in the UK, Europe, or on the other side of the world.

Marconi's Mandarin aims to bring quicker responses to questions in the classroom

MARCONI Instruments has combined computer aided design (CAD), graphics display, audio response and video disk storage to produce a new electronic teaching and training aid called Mandarin.

The idea of applying computer, screen and keyboard to teaching is not new, but according to Marconi, existing systems tend to be slow, both in terms of response to students' actions and the time taken for instructors to prepare the programs.

Mandarin uses modern CAD techniques to allow complex coloured graphics to be compiled as teaching aids. It enables a one-hour instruction program to be compiled in about 40 hours. For the student, new graphics and data appear on the screen in less than two seconds. The software runs on an IBM PC and it is claimed that neither

student nor program originators need any knowledge of computers.

Mandarin has two types of terminal, one for student and the other for instructor. Starting from scratch, the instructor can call on shapes from a computer library to position and build up block diagrams, schematics, mimic diagrams and sketches with suitable annotations. He can also invent new shapes likely to be used frequently and keep them in the computer.

If necessary, coloured photographs or film sequences can be introduced into the program from the Philips video disc, as can audio response to students' actions.

Optionally, preparation can be spread with the aid of a "mouse." This is a small block moved over a horizontal tablet

on the desk top. Its motions are copied on the screen, allowing users to highlight items on the screen with a moving point of light. This way, lines can be drawn, or a text "menu" item selected for further action on the screen.

Students can subsequently use the program, with a degree of interaction decided by the programmer. They answer questions, react to stimuli of various kinds, or record their results with the minimum of delay on screen between cause and effect.

Programs can be written for students to use on their own, or for accompaniment by an instructor, allowing "unscheduled" questions to be put by students as in a normal classroom.

The basic system of one terminal costs about £12,500 and the video disk option adds another £3,000. More on 0727 59292.

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FINANCIAL TIMES SURVEY

Monday October 7 1985

Franchising

The franchising industry in Britain is still at an early stage compared with developments in the U.S., Japan and other European countries. Even so, there are signs now that the UK industry is set for record expansion with turnover reaching £5bn a year by 1989

High rate of success

By DAVID CHURCHILL
Consumer Affairs Correspondent

THE FRANCHISING sector in Britain believes it is on course for the sort of rapid growth in the late 1980s that has eluded it for much of the past decade. Total franchise turnover this year of about £1.7bn is expected to reach £5bn by 1989, at current prices, while the numbers directly employed are forecast to triple to almost 350,000.

This optimism is based on a variety of factors, not least the continued buoyancy of consumer spending and the belief that some of the worst abuses of individual franchisees by unscrupulous entrepreneurs have now been largely eradicated.

In addition, the development of franchising in the UK is still at a relatively early stage in comparison with the U.S., Japan and other European countries. Retail franchise operations are still in their infancy, particularly in the UK but are potentially one of the key engines of growth for franchising in the next few years.

Yet the optimism among franchise companies is tempered by the nagging doubts as to why British franchising has lagged behind its development in other countries. Wide-spread comprehension of the complexities of franchising for both companies and individuals is still limited.

"Franchising is neither a panacea for business difficulties nor a guarantee of success for those adopting it," points out Mr Clive Grant, author of a recent study on franchising published by the Economist Intelligence Unit. "It is vulnerable to abuse and demands a high degree of co-operation on the part of those engaged in the relationship."

However, he adds that "properly and responsibly deployed it has proved to be a rewarding system for business and employment creation and growth."

Business format operations

Yet franchising is hardly a new concept in Britain. Its origins can be traced back almost two centuries to when the brewers first created the tied house system to guarantee outlets for their beer. It developed in the UK this century mainly in the motor trade, through franchised petrol stations, car dealers and spare parts dealers, as well as into food retailing with voluntary groups such as Spar and VG.

However, it is the second generation — or "business format" — franchise operations where most of the growth is being recorded and on which most attention from companies and potential franchisees is being focused. These franchisees tend to be in fast food, servicing and retail sectors.

The range of franchises on offer will be amply demonstrated at the National Franchise Exhibition which opens this Friday at the Kensington

Exhibition Centre in West London at which more than 100 exhibitors and over 10,000 would-be franchisees are expected to attend.

Franchising, by definition, is where a company establishes a contractual relationship with owners of separate businesses which operate under the franchisor's name in a specified manner to market a product or service.

The franchise company — the franchisor — offers the would-be small businessman — the franchisee — the essential know-how, equipment, materials and local rights to a nationally advertised trade name.

The franchisee usually pays over a lump sum to begin with, then a continuing royalty which can either be a percentage of turnover or a surcharge on the cost of the basic supplies.

The royalty covers the cost of any further training, advice, administrative back-up and local and national advertising. The reputable franchise company is as keen as the franchisee that the new business does well, since both their futures depend on it. Mutual dependence is the hallmark of a good franchise operation.

Research carried out for the British Franchise Association — the main trade body for the industry — shows that the outlay required from a franchisee is on average £26,000 per unit, comprising just under £5,000 for the fee and £21,000 for the equipment and fittings. To this must be added, by the stage the franchisee reaches his "recommended" level of turnover, a further £3,900. This is made up, on average, by a 5.5

per cent royalty on turnover costing £8,375, a 4.5 per cent mark-up on all supplies bought from the franchisor (£1,850), a contribution to advertising which averages £1,080, and "flat charges" amounting to around £100.

These payments vary considerably both in range and combination. Fees can range from under £1,000 to over £100,000, while equipment can cost up to £100,000. Royalties on turnover can approach 15 per cent, and in a few cases the mark-up on supplies can reach 50 per cent.

For the would-be small businessman, perhaps disillusioned with his present job or having been made redundant, franchising offers an ideal way to start up his own business. Although an individual could set up in business on his own, selling hamburgers or offering a drain-clearing service, the

motivation of the franchisee is higher than a centrally-controlled company could ever hope to achieve.

Franchising aims to take some of the obvious pitfalls away from the small businessman, while giving a lot of the rewards — job satisfaction and the financial advantages of self-employment. Only a relative handful of UK franchisees dealing with reputable franchisors fail each year — about 2 per cent on average — with such a high success rate probably being due to the intense personal motivation of the individual franchisee as well as the guidance from the franchising company.

For companies wanting to expand rapidly, but without the financial or managerial resources to do so, franchising offers considerable advantages. Most of the development capital is put up by the franchisee,

while the motivation of the franchisee is higher than a centrally-controlled company could ever hope to achieve.

Resurgence of new activity

The drawback with this method of expansion is that it takes control away from the franchisor and a poor franchisee can put the company's whole franchise operation at risk.

The growth of franchising in the 1980s is illustrated by the fact that less than a quarter of currently active franchisors were operating franchises five years ago. There are now between 220 and 230 active franchisors, in the sense of having at least one franchisee appointed by them. The average number of units per franchise is 37, making a national total of active units of just over 8,300, each employing on average five

full-time and between two and three part-time employees.

The question remains, however, just how rapidly will the sector grow. Euromonitor, a market research company, believes that "there now appears to be a resurgence of new and dynamic activity in the market."

A number of factors would seem to support this view from Euromonitor and other industry analysts. These include:

● Few of the existing franchise operations have reached market saturation and even where this may seem likely in the near future, those franchise companies are developing other formats based on their previous successful formulas.

● A number of major new entrants to franchising are likely to emerge in the next few years. Already franchise plans have been announced by Avis, McDonalds, and Ryman and a number of other companies — especially retailers from both Britain and abroad — are considering joining the fray.

● The greater involvement of the major clearing banks such as Barclays and National Westminster should lend greater stability by providing finance for franchisees and, by implication, ensuring that the franchise operation is viable.

● The image of franchising in the past few years has improved significantly, helped by the activities of the British Franchise Association in raising standards and promoting the general concept of franchising.

"Franchising no longer has to prove its viability," suggests Euromonitor. "Any tarnish attached to the reputation of franchising will continue to recede and will, in a matter of years, be no more than the subject of history."

● The general climate for small businesses is likely to continue to improve as a means of stimulating employment.

"We are encouraged by the

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● McDONALDS, the world's largest restaurant chain with 8,600 outlets in 39 countries, will appoint its first franchisees in the UK by the end of this year. Meanwhile the company is opening four new restaurants in the UK today, bringing its total in Britain to 175, although there are already 200 branches in West Germany, for example, most of them franchise operations. In the UK, McDonalds invests £500,000 in most of its restaurants and employs over 12,500 people. Wimpy welcomes the McDonalds challenge—see page 4



Mr Tony Duthfield, director of the British Franchise Association, is encouraged by the high rate of success achieved by franchisees, compared with people setting up business independently

high rate of success achieved by franchisees compared with that experienced by individuals setting up independently," points out Mr Tony Duthfield, director of the BFA.

One potential hurdle still to be overcome by the franchise sector is the possibility that some of the trading conditions imposed by franchisors might attract the attention of the Office of Fair Trading for being restrictive practices. The OFT is closely watching the development of franchising to ensure that trading standards do not fall.

Many franchisors, however, have nothing to fear from closer Whitehall scrutiny of their activities. In fact, the franchise industry would welcome greater Government recognition of the role played by franchising in helping to generate jobs and wealth in Britain in the late 1980s.

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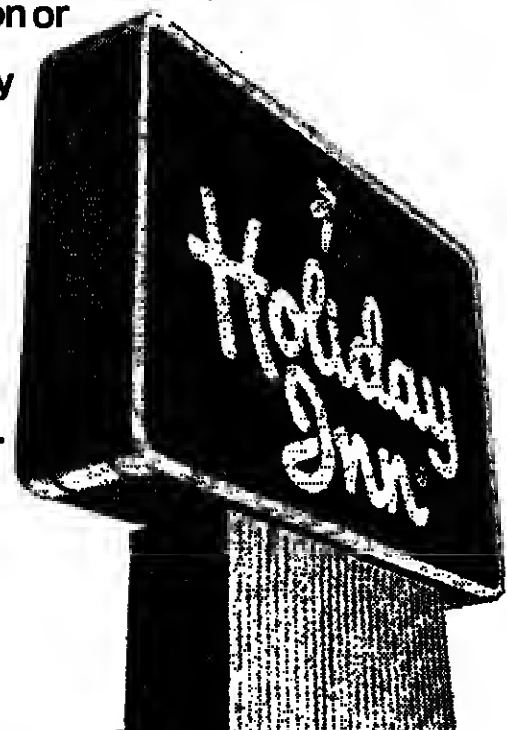
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FRANCHISING 2



Mr Roy Bishko, chairman of Tie Rack; marketing philosophy pays off

CASE STUDY: TIE RACK

By DAVID CHURCHILL

Success for the specialist retailer

TIE RACK, as the name implies, is a specialist retailer selling ties. Founded just over four years ago by Roy Bishko, a South African living in the UK for the past 13 years, the company has now rapidly expanded through franchising to embrace some 49 outlets — 30 of which are franchised.

Bishko turned to franchising as a means of capitalising quickly on his initial idea of promoting ties as a separate menswear market. It was a concept that needed rapid expansion to help generate consumer awareness among men of ties as fashion accessories. The strategy was that by expanding the number of shops, the overall market would be expanded.

The idea for Tie Rack began as something of a

gimmick in one of Bishko's small Oxford Street heel-bars: "Ties at sensational value!" ran the poster and silk ties were offered at silly prices. The idea quickly caught on, however, as "our customers found that they could buy two ties for the price of one," says Bishko. "This is purely the result of specialisation: fast reaction to demand, concentrating on the single product field, and close liaison with our manufacturers."

Tie Rack's marketing philosophy is simple: sell a wide variety of quality ties at the lowest possible prices, by bulk buying the goods and selling from small outlets in locations with high customer flow such as rail and Tube stations, airports, and prime High Street sites.

Tie Rack helps its franchisees find such prime sites by taking them to a potential franchise. This means that initial capital is smaller than it would otherwise be — between £15,000 to £20,000 on average.

Tie Rack franchisees come from diverse backgrounds such as a dentist, teacher, grocer, car dealer and so on. "People apply themselves to their business in a way few managers ever do and, as a result, sales grow faster," Bishko says.

Inevitably, Tie Rack's success — turnover is running between £8 and £25m — has spawned competitors. One former employee has set up "Sock Shop" — trying to do for socks what Bishko has done for ties.

The benefits of expansion through franchising are convincing, says Joan Anderson

How to franchise a business

DESPITE THE recent growth of franchising in the UK only a minority of existing or emerging companies fully understand the franchise concept.

The theory is a simple one: the franchisor has a saleable idea with wide potential application, but he lacks the resources, both financial and managerial, to implement it on more than a localised scale. He therefore franchises (in effect licensing with stricter controls) the idea to entrepreneurs who, unlike the would-be franchisor, have resources, the motivation to run a business themselves and ideally need to "buy into" an established and attractive business which should guarantee them success.

The practice is more complex. An agreement is signed by both franchisor and franchisee, granting the franchise for a period usually between five and 10 years. The details will vary according to the nature of the business concerned. Most franchisors charge a large "entry fee" for the right to franchise and this may or may not include the price of the lease of premises. (If this is not included, a separate "capital requirement" sum will be specified). Thereafter, unless the parent business is effectively a manufacturing and wholesaling one which has a captive market in its franchisees, an annual royalty, at anything from 1 to 10 per cent of turnover is levied, out of which a specified sum is allocated for central marketing and advertising purposes.

Initially the franchisor provides training and finds a suitable property which he may sub-let to the franchisee who will alternatively sign the lease himself. Opening "hand-holding" is provided and thereafter continued support can be on many levels.

The most common type of franchise are fast food, retail

and service businesses. In each case franchising will only succeed if there is a strong, and fashionable, image or "brand" with which the franchisee can easily identify.

Equally there must be strict central guidelines covering every aspect of the business. Demand is then created by the franchisor, to be serviced by the franchisee.

Gordon Roddick, chairman of the Body Shop, now operating 168 franchised and six company run outlets throughout the world, gives two simple reasons for his choice of the franchise route and these are the two most commonly cited factors determining such a decision: "We did not have the cash to invest in numerous outlets ourselves, nor the management infrastructure to cope with a large number of stores, but we knew that we had an attractive and marketable trading format."

The most common type of franchise operation is for fast food, retail and service businesses

Granting its first two franchises in 1977, the Body Shop grew rapidly and by 1983 the company was operating 37 UK franchises, 56 overseas outlets, 6 company owned shops, and was ready for a stock market flotation, which proved phenomenally successful.

The Body Shop acts as a wholesaler and is guaranteed through its franchisees a market for its goods, lessening the risks normally involved in manufacturing. The other responsibilities of the still light central management, are those central to the Body Shop image, marketing, design and training

as well as initial help with the property search.

The lease is then in the franchisee's name, but the Body Shop reserves the right to re-locate if an outlet proves too small or if, for example, the site profile shifts with the opening of a new shopping development.

Overseas, a head franchisee is appointed, who then has complete responsibility for operations within a particular country.

Tony Duffield, director of the British Franchise Association, identifies the phase in the development of a franchise operation where control and form of middle tier of management become essential for continued successful expansion.

The late 1970's saw a burgeoning of service franchise operations, many of which did not survive, partly because the concepts and markets had not been fully tested, but mainly because of insufficient company managerial control.

Gordon Roddick now feels that an interim management level is required, to ensure that the Body Shop's standards are maintained, whereas when the company was smaller, unannounced visits were sufficient means of monitoring the stores.

The Body Shop and a number of other franchise operations emphasise the importance of company owned stores for testing of new designs and products, for training purposes and to maintain contact with the customer, which can be easily lost in a franchised business.

Almost any kind of business can be suited to franchising. Tony Duffield would only exclude operations where the technique involved is so complex that it cannot easily be learnt by a franchisee. "The range of businesses currently franchising is enormous. One of the unlikely is Complete Weed Control, a weed-killing service for schools,

hospitals and colleges, and the many drain clearance companies. I would only stress that the franchisee must be sufficiently motivated to provide for both franchisor and franchisee and that, of course, the chosen area of operation must not be approaching saturation."

There is nevertheless a danger that franchising will be chosen when a company is in difficulties, and franchising is then seen as an escape route, whereby the burdens of ownership and management can be lifted. Many long-established companies are, however, opting for franchising for other, more positive reasons. Exchange Travel, a growing independent travel agent, is one company which has recently taken such a step.

It saw franchising as a means to rapid expansion and of giving it better performing

Despite some drawbacks, the potential advantages in franchising for both a young company and the entrepreneur are considerable

agencies. The company's experience since the opening of the first franchise in July 1984, has justified this confidence.

Tony Duffield claims that "in general, there is an encouraging trend towards responsibility, on both sides." Selection of franchisees is a more stringent process than it was. More liquidity is required, and while advice on financing is usually provided, EEC legislation now forbids franchisors formally to offer inducements to particular banks. Would-be franchisees are now tending to approach the BFA before they have made an investment, and the Association is planning a "nurseries" organisation to aid first-time franchisees.

Tony Duffield stresses that,

especially in the service area, the purchase of an idea must not be seen as a guarantee of success. "The franchisee must be marketing-oriented. The chimney cleaner must be sufficiently switched on to offer add-on products or services and be able to communicate their benefits."

The benefits of expansion through franchising are clear and convincing. For the franchisor, the most important advantage is the facility to expand without investing in property, but here the consequent lack of assets is ultimately a drawback. The lack of control at branch level can also be a problem, as indicated, and there are several legal anomalies which can obstruct expansion. At present, where there is a royalty payment involved, franchising companies are excluded, both from EEC possibilities and from enterprise zone allowances. Tony Duffield comments: "We are pressing for better understanding of the special nature of franchising, for instance, consideration for taxation purposes of the large proportion of resources put into training by a franchisor."

From the franchisee's point of view, the main disadvantage can be the ultimate lack of financial control. Some franchise companies such as RDC Computer are now offering what amount to phased buy-out options. Naturally, while the franchise relationship is essentially a co-operative one, and the times of exploitation by fly-by-night double dealing operators are over, franchisors do draw up agreements in their own favour.

It is clear, however, that despite these drawbacks, the potential advantages — both for the young company and the entrepreneur — are considerable, and there are many more who stand to benefit from choosing such a route.

(Joan Anderson is Editor of *Woolmark's "Marketplace"*.)

The pros and cons of being an entrepreneur

Becoming a franchisee

DAVID CHURCHILL

MORE THAN 10,000 potential franchisees are expected to attend next weekend's National Franchise Exhibition, at Kensington Exhibition Centre, West London, in an attempt to find the small business opportunity that will change their lives.

Many of the exhibition's visitors almost certainly will be nurturing the dream of running their own business, with all the benefits of self-employment and escape from the frustrations of working for a large organisation.

For many people the dream will remain simply a fantasy escape from their present job but, equally, many will find in franchising the opportunity they are seeking and actively take up a franchise within the next 12 months.

Why will they do it? Franchising offers most of the advantages of running your own business — such as independence and job satisfaction — without many of the drawbacks which result in such a high failure rate for more single businesses. Franchise operations do fail as well, but the rate is generally much lower than that for small businesses overall.

Moreover, taking on a franchise with one of the more reputable and well-established franchise operations, and raising finance through a clearing bank, makes the potential risks much less. Neither the banks nor the franchisors want their franchisees to fail, so their screening procedures to weed out those unsuitable are fairly rigorous and becoming increasingly sophisticated.

Examples

Although the average franchisee is aged about 40, married with children, and with a history of fairly steady employment there is really no such animal as the typical franchisee. As Clive Grant points out in a recent Economist Intelligence Unit report: "Franchisees exhibit a variety of characteristics and assume many guises."

The majority of franchisees are either white collar workers or self-employed before entering franchising. Manual workers are not a significant force as yet, while executive level redundancies during the recession has prompted a surge in this type of franchisee.

In addition, women are showing an increasing interest in franchising. The decision to consider franchising is usually a very conscious one made frequently at a watershed point in life," comments Max McHardy, chairman of the

British Franchise Association.

Women seem naturally to generate more such occasions. During marriage and after the children have grown up are the most common, but whereas men have always been required to follow a career path, usually resulting in the search for a stable working life, women traditionally have been far more able to react to changing personal aspirations.

Sue Horstman, managing director of the growing Popples franchise, agrees that franchising opens up many opportunities for women. "It has enabled me to be a fulltime mother and fulltime businesswoman simultaneously," she says.

Her concept for Popples came from her local government background where she realised that there was a lack of high quality and professionally organised reliable domestic help.

Thus Popples began in 1980 and joined the Franchise group in 1983. The company has developed and widened its services since and "over the next three years anticipate the creation of some 10,000 jobs," Horstman said.

Most franchisees are individuals rather than companies, operating either as one person units, performing a service or as owners of small retail units employing staff to help them. Some single operators usually take on other franchisees as their business prospers although these are not always in the same business. As many as 40 per cent of franchisees now own more than one unit.

Before becoming a franchisee, would-be entrepreneurs should consider a number of factors. Not least are their motivations for going into franchising and people should not delude themselves when considering their own capabilities and long-term ambitions.

You have to establish whether you have the emotional and physical stamina to work long hours to establish a business and whether you can cope with the lack of security involved in not working for a salary paid by a company.

In addition, it is important that a would-be franchisee discusses with their marriage partner the hard work and commitment needed to make a franchise successful. Both may need to put in a great deal of work. It may be that on considering it carefully, you and your family decide that the financial strain in the short-term and possible long and unusual hours are simply not worth it.

Franchisees such as instant printing or film developing.

Another determining factor is the amount of capital you have available or have access to. Small service franchisees cost considerably less than a fast-food operation which has high start-up costs. But choosing a franchise simply on the amount of funds available — rather than because you feel it is right for you — may lead to problems later.

Choosing the franchisor can also be fraught with difficulties for potential franchisees. One factor to consider is the type of operation run by the franchisor. Where the initial meeting is held — office, hotel room or bar — can be a clue, although would-be franchisees should be wary of being taken in by a too-affluent setting for the initial meeting.

One franchise consultant suggests that potential franchisees realise that the good franchisor is someone who wants to form a lasting partnership with you and not just sell you something quickly which you will regret later.

Questions

It is possible to tell a lot about a company by establishing such facts as how long it has been in business, its financial strength (including credit rating) and the bank's reaction to it. Potential franchisees should ask about its plans and prospective development, how selective it is in choosing franchisees, and how successful these become. Ask to talk to some of its franchisees at random.

Find out about the whole range of the franchised product — including advertising, machinery and administration. Consider if you would buy the finished product or service on the open market. Consider also whether the product is priced and packaged competitively.

Once a franchise has been chosen and acquired, will franchisees really have the independence they seek? A survey by Prof. John Stanworth of the Polytechnic of Central London into the motivations and working aspects of becoming a franchisee found that few franchisees felt they were being over-supervised.

"Franchisees' independence may be less than the most independent of small businesses but, in reality, many franchisees have exchanged an element of their independence for the kind of security and support that allows them real independence in many areas of operation," he says.

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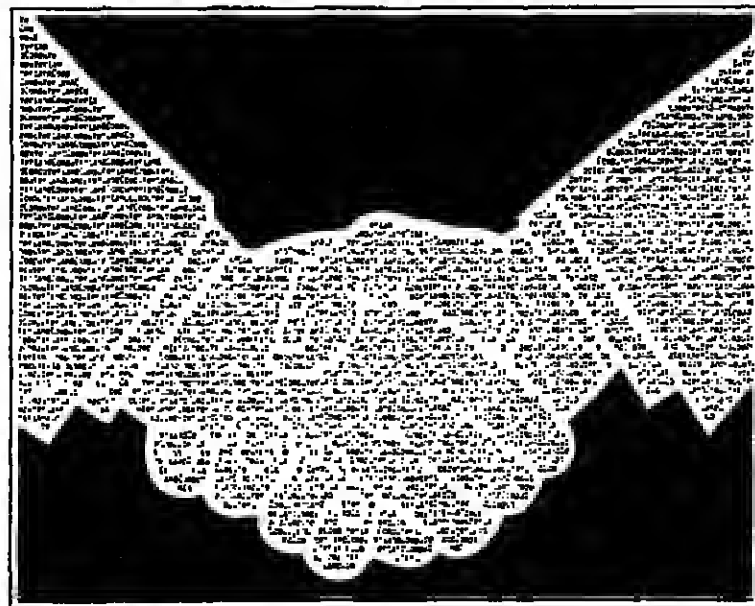
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FRANCHISING 3

Clearing banks ready to back promising ventures

UK Financing
TIM DICKSON

THE UK clearing banks have recently developed a whole new taste for franchising. National Westminster, for example, appointed the first full-time franchise manager in 1981 (it now has two). Barclays followed suit later in the same year. Lloyds and Midland appointed franchise managers within established lending divisions in 1982 and 1983 respectively, while among the smaller banks Williams and Glyn's (now merged with the Royal Bank of

Scotland) has also sought to promote a specific interest in this area. Even venture capitalists in Britain are being attracted to franchising with the launch this year of Franchise Investors Limited (FIL), the first ever UK fund specialising in this type of business.

By contrast, most major lenders steered clear of franchising in the 1960s and 1970s when the activity was much smaller and tainted with the connotations of pyramid selling.

As an illustration of recent growth the clearing banks are estimated to have lent £10m to £12m to franchisees in 1983—yet in the past 12 months national Westminster alone claims to have chalked up around £8m.

The new enthusiasm among lenders for franchised customers has coincided with the banks' development of new services for small business generally. But franchisees are seen as a particularly significant group because (in theory at least) they are marketing a tried and tested product or service with built-in back up and support from the franchisor.

Figures show a high casualty rate among franchisees in the first year of operation—about one in four—but thereafter a much lower failure rate than more conventional businesses.

Borrowers should keep this point in mind when negotiating the interest rate on bank funds. But while raising finance for a good franchise is generally

easier (and cheaper) than raising cash for an untried venture, success will only be achieved with a well thought out and well presented business plan (a good franchisor should be able to help here). The essence of this exercise is for the borrower to put himself in the shoes of his bank manager. The latter will (among other things) be looking for security (business assets, personal guarantees, etc.), a commitment from his customer (willingness and ability to put in equity) and a cash flow sufficient to repay loan and interest on a regular basis.

Banks' policies vary but as a rule of thumb they will contribute anything between 30 per cent and 70 per cent of the money required—the rest will

have to come from savings, the sale of assets, a second mortgage, friends or relatives. (Although many managers are more flexible these days, others still stick fairly rigidly to the old 2 for 1 ratio between proprietors' capital and borrowed money.)

Overdrafts should be used for working capital, not to finance long term assets for which term loans are more appropriate. These can be negotiated with most banks these days on either a fixed or floating rate basis—the cost will probably depend on the amount of security provided but bear in mind that capital repayments can usually be deferred for a year or so, thus easing the early pressures on cash flow.

Franchisees short of their own capital or security may persuade a bank to back them under the Government's Loan Guarantee Scheme. This gives the lender a Government guarantee for 70 per cent of the loan which can be claimed if the borrower cannot repay. Due to the high failure rate of companies using the LGS in recent years—and the conse-

quent level of claims on the Department of Trade and Industry—the cost of the scheme unfortunately makes it less attractive than when it was first introduced in 1981.

Finance houses

Other sources of capital for franchisees include the finance houses of which at least two, First National Securities Group and the Black Arrow Group, have their own special funding packages. The main difference between, say, the FNS strategy and the banks is that all loans have to be secured against the borrower's residence—money can thus be lent more easily to untried franchisees and 100 per cent loans can be made when the initial requirement is relatively low.

Normally interest rates charged by finance houses are higher than what is obtainable at a high street bank.

Conscious of the development potential of franchising—some see the current £1bn to £1.4bn annual turnover rising to £5bn in the next five years—Britain's

venture capitalists are now displaying a closer interest in the sector. Some of the funds established under the terms of the Government's Business Expansion Scheme (BES)—which provides tax relief for individuals investing in unquoted companies—deal in the relatively small sums which most franchisees are likely to be seeking.

Earlier this year, however, Granville & Co, the London-based licensed securities dealer and fund manager, launched Franchise Investors Limited (FIL) with £1.25m of money from City institutions including Pottel Investments Management and Legal & General Assurance.

"The time is right," says Richard Crook, FIL's managing director. "The 1980s will be the decade of franchising in the UK." FIL's main emphasis will be getting U.S. franchisees to turn out their operations to UK franchisees and the group expects to complete its first deal in the next few weeks. So far it has received more than 60 proposals.

Venture backed franchisees, however, will remain the exception—most will end up using their local bank. Banks incidentally often have finance schemes with established franchisees which can be used by new franchisees to get better terms and finer interest rates than other borrowers (provided they furnish a reference from the franchisor).

Banks, by the way, warn against franchisees using the franchisor as a source of borrowing. As one manager puts it: "Where the franchisor has to accept liability for the franchisee's borrowing either on a direct or contingent basis, the question whether that product or service is franchiseable is raised. The nature of franchising is that the franchisee is licensed to operate the business format and is responsible for financing his own independent business. If the franchisor is liable for the debts of the franchisee the development of the franchise may be slowed down since the franchisor might have difficulty in arranging credit."

Big businesses go world-wide

U.S. the leader
TERRY BYLAND
IN NEW YORK

THE PAST five years have seen the U.S. confirm its position as world leader in the franchise business, and also apply its experience and skills to the creation of a world market for the industry.

Inside the U.S., the application of franchising techniques—the licensing of business systems and established trade names to separate entrepreneurs—has burgeoned as the national economic shakeout has thrown up a new breed of businessmen. Often, it is an entrepreneur who has been taken over by a big company, these champions of private enterprise have taken readily to franchising.

By the end of this year sales by franchise business in the U.S. will total about \$52bn, according to the Department of Commerce in Washington. This represents an annual increase of nearly 10 per cent, and more than sustains the rapid growth of the past decade.

Retaining the focus of the franchise industry, \$42bn or roughly one-third of all U.S. retail sales—were made by franchising companies and their franchisees in 1984, and some 52m people were directly employed.

Restaurants, usually of the fast-food type, remain the most popular sector of the franchising business. With their rapidly growing markets and well-tested techniques, fast-food outlets have an obvious appeal for first-time franchisees.

Such outlets, however, increasingly require more capital and stricter management. The better-known franchise names, McDonald, Burger

King and their rivals, all hope that new franchisees will turn themselves into successful businesses, running still more restaurants.

The days of the one-family franchise, making a modest living from a single outlet, seem numbered.

The ideas developed in the fast-food trades have long been successfully applied elsewhere. Motorway service stations, soft drink bottlers, car and truck dealerships stand out in the "traditional" areas of the franchise business. Well over 70 per cent of U.S. franchise operations are in this sector, and industry analysts now warn that trade is likely to level out or even decline over the next five years.

But the lead has already been taken over by a host of new ventures usually categorised as "business format" operations. These franchises aim at specialised markets such as real estate, hotels, or even credit collection, some types of accounting, or printing and copying services.

Business format operations seem likely to maintain their rapid growth and provide the main stimulus for the industry up to 1990. About 50 different types of industry are now open to business format franchising and the sector has been expanding at a steady 5 per cent a year.

As the U.S. franchise industry has honed its skills in home markets it has also seized its opportunities overseas. The same trends which fostered the growth of American franchised service industries are to be seen in most other advanced countries.

Since about 1975 the growth in foreign outlets of U.S. franchisees has gathered pace at a spectacular rate. Around 25,600 foreign outlets are now in operation, compared with a mere 3,300 in 1971.

A recent survey of U.S. franchisees indicated that 37 per cent were already operating internationally and that a further 27 per cent planned to do so in the near future.

While the fast-food, and car and truck dealerships represent the majority of overseas franchise operations there are signs that the new sectors are also growing rapidly in foreign markets. Among well-known companies going abroad this year have been such names as Fandry Corporation / Radio Shack, the personal computer retailer, and Holiday Inns, which continues to expand rapidly through franchising its hotel operations.

Canada loses lead

Canada, as might be expected, is the leading market for U.S. franchisees, taking about 30 per cent of the total of foreign operations by U.S. franchisees. But, significantly, Canada's share is falling dramatically, from a high point of 46 per cent in 1971, as other countries are drawn into the U.S. franchise network.

The second-largest foreign market is Japan, with 5,000 franchised units, while the UK ranks third with 2,200 units. Both countries are developing as important overseas markets for the U.S. industry and appear to have the characteristics developed in the U.S.

In Japan about 70 per cent of total franchise outlets are in the well-tried food categories—restaurants, doughnut shops, ice cream parlours and convenience food stores. The Japanese craze for the U.S. way of life seems to be in no way abating.

But the trend of the past year suggests that Japan and the UK may no longer dominate the foreign side of the industry for much longer. Both Australia and New Zealand, with 61 and

21 U.S. franchise outlets respectively, are proving ready exploiters of such natural advantages as the common language and business methods.

France, which at first proved highly resistant to the fast-food outlets which were the first examples of U.S. franchising to be exported, has recently seen a National School of Franchising open in Paris and another is expected to open in Paris before long.

The prospects for further international expansion are good and there are now few fears that franchising might prove a wholly U.S. concept which would prove difficult to apply outside North America.

The U.S.-based International Franchise Association, in a survey of its members' experiences overseas, has reported that most enjoyed sales gains of 25 per cent to 250 per cent in their foreign outlets over the past five years. None reported a decrease. Significantly, the vast majority—nearly 80 per cent—of those surveyed did not find it necessary to employ any outside consulting help when seeking non-U.S. business.

The principle of franchising, they found, was already internationally accepted. Those who had not tried marketing their franchises internationally said they had not yet fully explored their home markets.

Inside the U.S., franchising is regulated by the Federal Trade Commission and by state laws. There are no significant clashes between the U.S. companies and foreign legal authorities.

As U.S. business continues to move away from the traditional, publicly-owned and funded company towards more personal and individual type of private enterprise, franchising seems certain to flourish.



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AT Computer World, Edgmont, Birmingham: Sale of microcomputers and computer supplies.

Accounting Centre, Epsom, Surrey: Management services to the veterinary profession.

AP Autopart, Tachbrook Road, Leamington Spa: Automotive part suppliers.

Apollo Window Blinds, 79 Johnstone Avenue, Cardonald Industrial Estate, Glasgow: Retail franchise—supply of fashion window blinds and associated services.

Badgman, 844 Chiswick High Road, W4: Manufacture and sale of personal name badges.

A. F. Blakemore and Son, Long Acres Industrial Estate, Willemhall, W. Midlands: Convenience store.

Budget Rent-A-Car International, 85 Great North Road, Hatfield, Herts: Self-drive car, van and truck rental service.

Burgers, 29 Kew Road, Richmond, Surrey: Fast food restaurants.

BSM City Link Transport, Holdings, 13-14 Ascot Road, Clackhouse Lane, Feltham, Middx.: Same-day and overnight parcel delivery service.

Colour Consultants, 187 New King's Road, Farnham Green, Surrey: Colour catalogues of wallpaper, carpets and fabrics.

Command Performance, High End, Troutstream Way, Loundwater, Herts: Ladies and men's hairdressing.

Computerland, Europe, 50 Pall Mall, SW1: Retail sale of microcomputer software and hardware.

Conder Cleaners, Abbots Barton House, Winchester, Hants.: Industrial and commercial cleaning and wall-cleaning specialists.

Davesports Brewery, Bath Row, Birmingham: Retail distribution of beer, wines, spirits and minerals to the home.

Dyno-Rod, 149 Maple Road, Surbiton, Surrey: Drain and pipe-cleaning service.

Everett Mowson and Furby, 10 Railway Street, Chelmsford, Essex: Business and commercial property agents.

Exchange Travel (Franchise), 66-70 Parker Road, Hastings, Sussex: Travel agency.

FotoStar (Terryford), 150-158 King's Cross Road, WC1: Receipt and collection of films for processing and the processing of films on retail premises.

Fudge Kitchen (UK), Conneliffe House, Darlington: Retailing and marketing of confectionery.

Global Cleaning Contracts, 4-6 Lind Road, Sutton, Surrey: Office cleaning, contract sales and management agency.

Holiday Inns (UK), Windmill Road, Brentford, Middx.: Hotels.

Holland and Barrett Franchising, Station Approach, W. Nyneport, Surrey: Health food retail stores.

Home Tunes, Guildford Road, Egham, Surrey: Car tuning service.

Interlink Express Parcels, 22-24 Portland Square, Bristol: Express parcel service.

In-Ton, Wakefield Road, Gildersome, Leeds: Retailing of kitchen and bathroom furniture appliances and ancillary merchandise.

Kall-Kwik Printing (UK), Victoria Road, S. Ruislip, Middx.: Centres offering design, printing, finishing and photocopying service.

Kentucky Fried Chicken (GB), 483 London Road, Camberley, Surrey: Fast food.

Late Late SuperShop, New Century House, Manchester: Convenience store retailing.

Mobilising, 7 Nelson Road, Greenwich, SE10: Mobile car engine tuning specialists.

Nationwide Investigations, 85 Queen Victoria Street, EC4: Private investigation bureau.

Northern Dairies, Easton Road, Wythenshawe, Manchester: Manufacture, processing, packaging, marketing and distribution of milk and dairy produce.

Olivers (UK), Eagle Court, Hargreaves Street, Bedford: Bakery and coffee shops.

PDC Copyprint (Franchise), 174 London Road, E. Grinstead, Sussex: Quick printing shops.

PPG Industries (UK), Rotton Park Street, Birmingham: Distribution of paint and other products to car repair and respray garages.

Pancake Place, 30 New Road, Milnthorpe, Lancs.: Pancake restaurants.

Pass and Co., 635 High Road, Leytonstone, E11: Timber preservation.

Perfect Pizza, 256 Maxwell Hill Broadway, N10: Restaurants and take-away units.

Phidlar (UK), a Gambrel Road, Westgate Industrial Est., Northampton: Retailing of company's own products, namely knitting yarns, DIY products and accessories.

Pip (UK), Security House, Sumatra Road, NW6: Photocopying, instant printing, artwork and graphic communications.

Pizza Express, 28 Wardour Street W1: Pizzeria restaurants.

Poppies (UK), Conneliffe House, Darlington: Domestic and commercial cleaning.

Profranchise Conneliffe House, Darlington: Printing shops.

Profranchise and Youngs (Franchise), 70-78 York Way N1: Bridal wear retail shops. Formal wear hire service for men.

Rodler Paris, 26 Curzon St. W1: Ladies' and gentlemen's fashion clothing.

Safeclean International, Dalmeida House, Arlington, Wantage, Oxon: Hand-cleaning of carpets and upholstery. Curtain cleaning on site.

Servicemaster, 50 Commercial Square, Freeman's Common, Leicester: On-site carpet, upholstery and curtain cleaning. Fire and flood restoration, carpet treatment and repairs.

Silver Shield Screens, 34-42 Holbrook Lane, Coventry: 24-hour mobile window screen replacement service.

Singer Distribution, Grafton Way, West Ham Industrial Estate, Barking, Essex: Retail and after-sales service of sewing machines and related products.

Sketchley, Hinchley, Leica: Dry cleaning and shoe repairs.

Snap-on Tools, 85-99 Cross Street, Sale, Cheshire: Distribution of automotive hand tools.

Spar (UK), 32-48 Headstone Drive, Harrow, Middx.: Marketing and development programmes for Spar retail shops.

Sperlings, Spring Crescent, Southampton: Convenience stores.

Spud-U-Like, 34-38 Standard Road NW10: Fast food restaurants based on baked potatoes.

Strikes Restaurants, 214 Regent Street W1: Licensed table service restaurants.

Thorntons, Derwent Street,elper, Derbys.: Chocolate and sugar confectionery.

Tie Rack, 62 Brompton Road SW3: Retail neckwear and accessories.

Ti/Midas, 107 Mortlake High Street, SW14: Retail car exhaust system replacement.

TNT (UK), Bond Gate, Newcastle: Collection points for next-day delivery nationwide and European and international courier services.

Unigate Dairies, 14-40 Victoria Road, Aldershot, Hants.: Distribution of milk and dairy products and soft drinks.

Utticouleur (Great Britain), 35 North Street, York: Repair, recolouring and restoration of vinyl coverings.

Watney Mann & Truman Brewers, 91 Brick Lane, E1: Licensed house franchises.

Wetherby Training Services, 1 Hastings Court, Wetherby, W. Yorks.: Secretarial and word processing training centres.

R. T. Willis (Food Distributors), New Street, Barnsley, S. Yorks.: Food distribution.

Wimpy International, 214 Chiswick High Road W4: Fast food.

Yves Rocher (London), 1695 Borough High Street SE1: Retail sale of Yves Rocher beauty products and sun treatments.

Ziebart International, Crescent Road, Worthing, Sussex: Vehicle rust-proofing and other car-care services.

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FRANCHISING 4



TOURISTS in London enjoy take-away food outside a Wimpy restaurant. Wimpy has more than 420 table service and counter sale restaurants throughout Britain. A counter service franchise costs at least £350,000

Steady demand for fast-food outlets

The food business

DAVID CHURCHILL

FAST FOOD franchising is not only the largest sector of franchising in the UK but also the type of franchise that people most readily understand.

The growth of fast food outlets - selling anything from chickens and burgers to pizzas and ice-creams - has had a chequered history over the past few years, especially as a result of the imposition of VAT on hot take-away foods in last year's budget.

However, the underlying reasons for the growth of fast food in the UK over the past decade remain. This trend has been fuelled by changing lifestyles - the break-up of traditional family units - and the desire for convenience and speed in eating out. The sharp rise in traditional restaurant prices has also helped the much-cheaper fast food outlets to attract customers.

As the market demand for fast food has grown, so major companies have been attracted into the area as a means of diversification into a growth market. Many - but not all - of these companies are using the franchising system as a way of rapid expansion in the UK.

The major exception until now has been the McDonald's hamburger chain, which although franchising in the US and other parts of the world has so far decided to establish a firm base in the UK market before expanding through franchising. The company, however, now understood to be ready to franchise its operations in the UK.

Britain really first discovered franchised fast food with the Wimpy chain of outlets which started as a J. Lyons group franchised operation. Two rapid expansion, however, led to a lowering of standards in a few outlets but this was sufficient to tarnish the reputation of the whole operation.

Lyons subsequently sold the Wimpy franchise to United Biscuits in late 1976 for some £7m. Initially, the operation consisted of table service restaurants only, but under UB's investment programme, Wimpy has changed radically with the development of new counter-service restaurants.

Wimpy now has over 80 counter-service restaurants in the UK, of which 30 are company owned while the rest are franchised. There are also over 340 table service outlets mainly franchised with many undergoing a re-vamping to improve their image.

Wimpy's counter service restaurant franchise costs a minimum of £350,000. Mr Michael Chambers, Wimpy's franchise sales director, points out that "over the last two years we have had increasing numbers of corporate groups coming to us because they are beginning to recognise that the fast food industry offers good opportunities for diversification."

Chambers says that Wimpy welcomes the potential challenge from McDonald's decision to franchise in the UK. "I think there is enough potential investment for the main two or three franchising companies in the UK," he says. "We welcome McDonald's decision to franchise because it is always nice to be competing with one's main opposition on an equal footing. There is no doubt that being a franchisor is a rather different ball game to operating a chain of company-owned restaurants, so in a sense we are on a rather more equal footing."

Potential

Wimpy's image and operating problems also coincided with the arrival into the UK during the 1960s and 1970s of Kentucky Fried Chicken. KFC is one of the major fast food franchisors in the world with over 7,000 units with less than 400 in the UK (most of them franchised).

KFC's early entry into the UK market with U.S.-style counter-service outlets gave it an initial marketing edge. However, its

market strength was eroded between the late 1970s and early 1980s by the strength of new competition and problems with its market position. KFC had become increasingly reliant on a young customer profile and the late-night trade - both areas where competition was fierce and growth limited. Consequently, it embarked on a market repositioning campaign aimed at appealing to families and focusing on their midday and evening meals.

Mintel, the market research company, suggests that "fast food offers an excellent opportunity for companies established in other fields to diversify, and the market seems to thrive on competition." It argues that "four or five different types of fast food outlet can operate in close proximity, creating a form of fast food centre and drawing more business to the area, which means increased sales for all of the outlets in that area."

Apart from fast food, franchising is also being used by a number of other companies in the food business. Fresh-baked soft confection, for example, is an American development which is gaining popularity over here with a number of franchised cookie companies, including Millie's Cookies, the Cookie Coach Company - which uses rapid delivery vans - and Cookie Kitchens.

Holland and Barrett, owned by Booker McConnell, has successfully capitalised on the health trend by expanding its health food shops through franchising. It has 149 franchised outlets and 32 franchised outlets and the minimum investment is about £55,000.

Another changing consumer trend may also form the basis for further franchising opportunities. The decline in demand for doorstep delivered milk has led to increasingly uneconomic for the big dairies to continue with this service. However, United Dairies has started franchising a small number of its milk rounds to motivate the milkman to preserve and expand the level of doorstep delivery of dairy products.

No end to the range of services

FRANCHISED services can range from the traditional drain-clearing or carpet-cleaning right through to newer opportunities such as accountancy or marriage bureau.

The possibilities seem almost endless in providing consumers or companies with services that they need rather than supplying an actual product to sell.

One of the best-known service franchisors is Dyno-Rod, established in 1983 to provide drain and pipe cleaning for companies and homes. Initial investment is relatively small, at £7,500 compared with some other franchises and Dyno-Rod now offers owner-operator franchises rather than territorial franchises. Each owner-operator is able to develop up to a four-man operation depending on the amount of business.

Dyno-Rod has set up two other service franchise operations - Drips Plumbing, an emergency service, and Dyno-Electrics, covering electrical installations and repairs.

The success of Dyno-Rod over the years has, not surprisingly, attracted other companies into the market. Metro-Rod Franchising, for example, also offers a commercial and domestic drain and pipe cleaning service, although the initial investment needed is about £24,000.

Another well-established franchise operation is Service-Master, which offers cleaning of both home and office. Initial investment is about £8,750. As with Dyno-Rod, Service-Master's success has encouraged competition such as Maids, part of the Global Group, where franchisees cost about £12,000.

One of the main service sectors is that offering a service to owners of the 17m or so cars in Britain today. This sector has been divided into four broad categories - rental, tuning, windscreen replacements and car improvements.

Budget Rent-A-Car has traditionally linked its franchisees with retail motor dealers but is

Franchised services

DAVID CHURCHILL

now expanding through non-motor sites such as travel agents and hotels. Budget, part of the Sunbeam Corporation, claims to be the world's third largest vehicle rental concern and operates in 100 countries worldwide. Minimum investment is £50,000.

Car tuning is typified by Home Tune, a nationwide network which tunes cars at home or at work. Established in 1968, the company's franchisees turn more than 180,000 cars a year in the UK. Investment required is £8,500. A competitor is MobilTuning, which states that potential annual earnings are more than £14,000 on an investment of £11,600.

Windscreen replacement franchises include those offered by Silver Shield and Highway Silver. Silver Shield provides a 24-hour emergency windscreen replacement service for cars and commercial vehicles and average funding required is between £14,500 and £17,500.

Highway Silver offers two types of franchise. The communication centre franchise is directed at people with management, selling, and marketing experience and requires own windscreen replacement services on a regional basis. Mobile workshops are aimed at people with technical skills who prefer to work outdoors. The communications centre franchise costs around £40,000, while the mobile workshop franchise is £6,000.

Apart from cleaning and car services, there are a plethora of other types of service franchises on offer. These include consumer retail services such as Image Haircutters, a hairdressing franchise, or business-to-business franchises such as Printaprint instant printing. Another new form of franchise aimed at providing small companies with specialist management accounting information. The leader in this type of service is the Accounting Centre franchise which recently changed its name from Accounting Information Development Services because of the bad publicity surrounding the acronym of its name.

The Accounting Centre has also opened a retail shop in central London in addition to the 22 franchised offices throughout Britain.

Euromonitor, a market research company, suggests that "there is considerable scope for expansion in every element of the commercial services market, demonstrating the growing importance to the economy of the service industries themselves."



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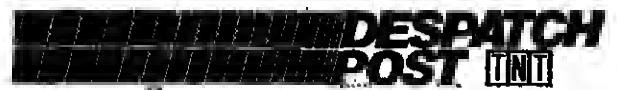
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ET UNIT TRUST INFORMATION SERVICE

Chairman resigns at Motor- Columbus

By John Wicks in Zurich

Marriott, which recently agreed to buy the Howard Johnson restaurant motel chain from Imperial Group of the UK, and opened New York's biggest hotel, operates in 47 states across the U.S. and 26 countries. It owns 146 full service hotels and resorts, a rapidly growing chain of moderate price hotels, more than 1,400 fast food restaurants and a large food service operation.

MR. MICHAEL KOHN has announced his resignation as chairman of the Motor-Columbus Swiss-based and civil engineering group.

Mr. Kohn, the best-known spokesman of the Swiss energy sector, intends to follow "new professional priorities."

As a Swiss board member and chairman of two major power station operators, he will spend more time engaged with matters involving energy policy and public acceptance of nuclear energy.

His successor at the head of the Motor-Columbus board will be Dr. Angelo Pazzi, who is to head the company's managing director.

Hoffman-La Roche names chief financial officer

BY OUR ZURICH CORRESPONDENT

DR HENRI B. MEIER is next April to become chief financial officer of the Swiss Bank Corp., a Swiss pharmaceuticals and chemicals company. He will succeed Mr. Maxim Berger, who will go into retirement.

Meier is at present a member of the executive committee of Handelsbank, the Zurich-based affiliate of the Swiss Bank Corp. He is in charge of the bank's international securities, foreign exchange, money-market and treasury operations.

RAISTON PURINA, the U.S. wholesale baker and producer of livestock and poultry feed, has named Mr. James Elieser vice-president and chief financial officer, a new position.

Elieser, who joined Raiston Purina in March 1985,

was vice-president and treasurer. Mr. Ronald Winney, assistant treasurer, will succeed him.

SEARS, ROEBUCK, the U.S. retailing and financial services group, has named Mr. Edward A. Brennan chairman and chief executive officer. Mr. Brennan will succeed Mr. Edward Telling, who is retiring at the end of the year.

Mr. Richard M. Jones, vice-chairman and managing director, will succeed Mr. Brennan as president while retaining the title of chief financial officer.

✱

NATWEST AUSTRALIA BANK, the Australian arm of National Westminster Bank, has named Mr. Jim Bain chairman. Mr. Bain is chairman of partners of a Melbourne-based Australian broking firm, and chairman of the Sydney Stock Exchange.

SPERRY CORPORATION, the New York-based computer, aerospace and farm equipment manufacturer, named Mr. G. Kroger president and chief operating officer, a post that has been vacant since 1982.

Mr. Kroger, who was an executive vice-president and president of Sperry's Computing Division, is now considered most likely to succeed Mr. Gerald G. Probst as chairman, the company said.

The appointment is part of a series of changes, begun in 1984, to realign the company from that of a financial holding company to an industrial operations company focusing on computers and other electronic systems.

White becomes general manager. (administration and treasury).

Mr. Ron Greca has been appointed manager, European corporate finance and administration by BERKELEY TECHNOLOGY, Jersey. He was previously director, finance administration for RCA Corporation and manager, Institutional business with Citicorp.

GRAPHIC INFORMATION SYSTEMS has appointed Mr. G. Odier as chief executive. He recently resigned as chief executive of Low and Bonar. He is deputy chairman of A. T. Mayall chairman of Elgin City Savings and deputy chairman of Richards.

Mr. W. A. Sheret has been appointed chief executive at CDL 44 FOODS, Bartlepool, maker of the "Mr Chris" range of gateaux and dairy cream cakes. He has been a partner at the firm of the firm of chartered accountants, Gilchrist, Tait, Wilson and Seaman since 1976.

RADOBANK NEDERLAND has appointed Mr. M. C. Gentis, general manager. He David van der Meer, director manager, Rex Bieron and Mr John Deives, treasury managers, and Mr Andre

ABN AMRO BANKING GROUP has appointed Mr. J. M. van der Meulen as managing director of its subsidiary, ABN AMRO Bank plc, London.

CREDIT UNION has appointed Mr. J. M. van der Meulen as managing director of its subsidiary, CREDIT UNION Bank plc, London.

ELECTRONIC RENTALS GROUP has appointed Mr. T. W. Long, managing director of its principal subsidiary, Visionhire, to the group board.

Frank Pugh, general manager of DATADAY's manufacturing plant at Biggleswade, has been promoted to production director.

Mr. Frank May, formerly marketing manager for Ferguson, has been appointed production planning director of

Mr. Hans Van De Schaart has been elected to the board of DANIEL C. GRIFFITH & Co., Witham. He is managing director of Daniel C. Griffith & Co. and a director of C. Griffith (Samplers and Analysts) USA Inc. a Griffith subsidiary in the U.S.

Mr. Richard Wadley has been appointed chairman and chief executive of JOHN KING & CO. (REUTERS). He has been joined to the board by Mr. Roger Hall financial director, and Mr. Norman Rodgers as commercial director. Mr. Whitman and Mr. E. E. Ewden Associates and C. Booth (Rolling Mills).

Mr. F. M. Duckner, Mr. Rodgers also chairman of Precision Investments, and Mr. J. H. King of the King family remain on the board as non-executive directors: Mr. J. E. Stanley King, Mr. R. H. Howard King and Mr. Abraham E. S. King.

Mr. G. S. Hill has been appointed commercial director. DAVIDSON RADCLIFFE.

T.BAR . . . ★
INTERNATIONAL

★

T-BAR INTERNATIONAL
(EUROPE) has appointed as
European sales manager, John War-
ner, previously European Director
of sales and marketing.

★

REED PUBLISHING has
appointed Mr. John Harris as
chief executive of the Daily
News Group, following the Reed
agreement to acquire the Soil-
and Times. Mr. C. J. Bellway
will continue as executive
of the group and remains chief
executive of the Daily News.
Mr. Harris was chairman of
the Berrow's Newspaper Group.

★

Chartered accountants
ARTHUR YOUNG has appointed
Mr. John Usher as director of
marketing. He joined the firm
in 1958. Mr. Usher is number 50
on Dunlop Slazenger Inter-
national where he was chief
executive, activewear division.

★

**BRITISH RAIL ENGINEER-
ING** has appointed Mr. Tony
Roche as its European sales
manager and Mr. Mike Conway
as BR business manager.

★

TECNICOLOR has appointed

works director and Mr. Mark Wright as sales and marketing director.

★

AT TIME AND DATA SYSTEMS INTERNATIONAL, Mr. M. J. L. Chandler is confirmed in his appointment as financial director and Mr P. G. Larsen joins the board as a non-executive director.

★

Mr G. E. D. M. Pearson has been appointed a director of the UKF division of RICHARDS, LONGSTAFF (INSURANCE).

★

Mr J. P. Lucas has been appointed a director of Richards (Longstaffe Leases and Trusts); and Mr M. I. Cox has been appointed a director of Richards, Longstaff (Financial Services).

★

Following the purchase by London Midland Industrial of the assets of the Products of Elizabeth, New Jersey, Mr Matthew Fazy becomes president and is replaced as managing director of EVERBRIGHT FASTENERS by Mr Peter X. Orsini.

★

TRIDENT GENERAL INSURANCE has appointed the following as assistant general

former president and chief executive officer of Reed Stenhouse, is chairman and chief executive officer of ALEXANDER & ALEXANDER INTERNATIONAL INC. A&A represents the business interests of the world's mail insurance operations of A&A outside the U.S. Mr John C. Slomewicz, business as president and will continue as director of multinational business development. Mr John J. Devine, currently chairman and chief executive of Reed Stenhouse & Partners, will continue as the chief executive responsible for retail operations in the UK and Europe. From January 1 1986, the retail operations plan to be based in the UK as Alexander Stenhouse.

*
Mr Ian S. Durrell has been appointed president of SYBERNETICS INTERNATIONAL, a new company created to amalgamate the international software product lines of operations of Sterling Software International. Mr Durrell was formerly president, international operations for Informatics, which was acquired by Sterling Software earlier this year. He will continue to be based in London.

★

MERCHANT BANKERS
Mr J. H. Clark has been appointed as corporate finance directors. Mr Peter Carter, Mr Chris Dowling and Mr John Stenden, as corporate services director. Mr John Stenden, as Projects Director. Mr Peter Noble and as Managing Director Mr Humphrey Carey. Mr Don Barrett, Mr Barry Carey, Mr Elias Kessess, Mr Ben Kilpatrick, Mr Tony Khalilhas been appointed as corporate assistant directors.

★

Mr Tom Weatherly has joined the board of BULMER & LUMB HOLDINGS as a non-executive director. Mr Weatherly is a former executive of Whitcroft and a non executive director of Amey Engineering and Chamberlain Phipps.

★

Mr Timothy Walker, chairman of the World Wildlife Fund (WWF), has joined the board of Henderson Administration Group and Henderson Administration Group Investment Trust Management, chairman of New London Oil, and chairman of Credit and Commerce Life.

Branch Shipper & Co. Ltd. (a)(n) C. & A. Trust (a) (n) Lloyds Bk. Unit Trs. Mgrs. Ltd. (a)

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AUTHORISED UNIT TRUSTS & INSURANCES

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1999

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MINES—Continued

Share	Dividend	Stock	Price	Last	at	Net	at
Paid							
O.F.S.							
Jan.	Oct.	Sept. 1946	50	125	128	0750	
Mar.	Dec.	7 Feb. 1946	50	124	115	0650	
Apr.	Jan.	Oct. 1945	50	124	115	0650	
May	Nov.	Sept. 1945	50	124	115	0650	
Jun.	Oct.	Aug. 1945	50	124	115	0650	
Jul.	Nov.	Jul. 1945	50	124	115	0650	
Aug.	Oct.	Jun. 1945	50	124	115	0650	
Sept.	Nov.	May 1945	50	124	115	0650	
Oct.	Dec.	Apr. 1945	50	124	115	0650	
Nov.	Jan.	Mar. 1945	50	124	115	0650	
Dec.	Feb.	Jan. 1945	50	124	115	0650	
Diamond and Platinum							
Nov.	May	May 1945	50	124	115	0650	
Dec.	Jun.	Jun 1945	50	124	115	0650	
Jan.	Jul.	Jul 1945	50	124	115	0650	
Feb.	Aug.	Aug 1945	50	124	115	0650	
Mar.	Sept.	Sept 1945	50	124	115	0650	
Apr.	Oct.	Oct 1945	50	124	115	0650	
May	Nov.	Nov 1945	50	124	115	0650	
Jun.	Dec.	Dec 1945	50	124	115	0650	
Jul.	Jan.	Jan 1946	50	124	115	0650	
Aug.	Feb.	Feb 1946	50	124	115	0650	
Sept.	Mar.	Mar 1946	50	124	115	0650	
Oct.	Apr.	Apr 1946	50	124	115	0650	
Nov.	May	May 1946	50	124	115	0650	
Dec.	Jun.	Jun 1946	50	124	115	0650	
Central African							
Jan.	Jan.	Jan 1946	50	124	115	0650	
Feb.	Feb.	Feb 1946	50	124	115	0650	
Mar.	Mar.	Mar 1946	50	124	115	0650	
Apr.	Apr.	Apr 1946	50	124	115	0650	
May	May	May 1946	50	124	115	0650	
Jun.	Jun.	Jun 1946	50	124	115	0650	
Jul.	Jul.	Jul 1946	50	124	115	0650	
Aug.	Aug.	Aug 1946	50	124	115	0650	
Sept.	Sept.	Sept 1946	50	124	115	0650	
Oct.	Oct.	Oct 1946	50	124	115	0650	
Nov.	Nov.	Nov 1946	50	124	115	0650	
Dec.	Dec.	Dec 1946	50	124	115	0650	
Finance							
Jan.	Jan.	Jan 1946	50	124	115	0650	
Feb.	Feb.	Feb 1946	50	124	115	0650	
Mar.	Mar.	Mar 1946	50	124	115	0650	
Apr.	Apr.	Apr 1946	50	124	115	0650	
May	May	May 1946	50	124	115	0650	
Jun.	Jun.	Jun 1946	50	124	115	0650	
Jul.	Jul.	Jul 1946	50	124	115	0650	
Aug.	Aug.	Aug 1946	50	124	115	0650	
Sept.	Sept.	Sept 1946	50	124	115	0650	
Oct.	Oct.	Oct 1946	50	124	115	0650	
Nov.	Nov.	Nov 1946	50	124	115	0650	
Dec.	Dec.	Dec 1946	50	124	115	0650	
Australians							
Jan.	Jan.	Jan 1946	50	124	115	0650	
Feb.	Feb.	Feb 1946	50	124	115	0650	
Mar.	Mar.	Mar 1946	50	124	115	0650	
Apr.	Apr.	Apr 1946	50	124	115	0650	
May	May	May 1946	50	124	115	0650	
Jun.	Jun.	Jun 1946	50	124	115	0650	
Jul.	Jul.	Jul 1946	50	124	115	0650	
Aug.	Aug.	Aug 1946	50	124	115	0650	
Sept.	Sept.	Sept 1946	50	124	115	0650	
Oct.	Oct.	Oct 1946	50	124	115	0650	
Nov.	Nov.	Nov 1946	50	124	115	0650	
Dec.	Dec.	Dec 1946	50	124	115	0650	
Notes							
Jan.	Jan.	Jan 1946	50	124	115	0650	
Feb.	Feb.	Feb 1946	50	124	115	0650	
Mar.	Mar.	Mar 1946	50	124	115	0650	
Apr.	Apr.	Apr 1946	50	124	115	0650	
May	May	May 1946	50	124	115	0650	
Jun.	Jun.	Jun 1946	50	124	115	0650	
Jul.	Jul.	Jul 1946	50	124	115	0650	
Aug.	Aug.	Aug 1946	50	124	115	0650	
Sept.	Sept.	Sept 1946	50	124	115	0650	
Oct.	Oct.	Oct 1946	50	124	115	0650	
Nov.	Nov.	Nov 1946	50	124	115	0650	
Dec.	Dec.	Dec 1946	50	124	115	0650	

NOTES							
Jan.	Jan.	Jan 1946	50	124	115	0650	
Feb.	Feb.	Feb 1946	50	124	115	0650	
Mar.	Mar.	Mar 1946	50	124	115	0650	
Apr.	Apr.	Apr 1946	50	124	115	0650	
May	May	May 1946	50	124	115	0650	
Jun.	Jun.	Jun 1946	50	124	115	0650	
Jul.	Jul.	Jul 1946	50	124	115	0650	
Aug.	Aug.	Aug 1946	50	124	115	0650	
Sept.	Sept.	Sept 1946	50	124	115	0650	
Oct.	Oct.	Oct 1946	50	124	115	0650	
Nov.	Nov.	Nov 1946	50	124	115	0650	
Dec.	Dec.	Dec 1946	50	124	115	0650	
Regional and Irish Stocks							
Jan.	Jan.	Jan 1946	50	124	115	0650	
Feb.	Feb.	Feb 1946	50	124	115	0650	
Mar.	Mar.	Mar 1946	50	124	115	0650	
Apr.	Apr.	Apr 1946	50	124	115	0650	
May	May	May 1946	50	124	115	0650	
Jun.	Jun.	Jun 1946	50	124	115	0650	
Jul.	Jul.	Jul 1946	50	124	115	0650	
Aug.	Aug.	Aug 1946	50	124	115	0650	
Sept.	Sept.	Sept 1946	50	124	115	0650	
Oct.	Oct.	Oct 1946	50	124	115	0650	
Nov.	Nov.	Nov 1946	50	124	115	0650	
Dec.	Dec.	Dec 1946	50	124	115	0650	

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Continued on Page 27

AMEX COMPOSITE CLOSING PRICES

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Only in the Financial Times

Continued on Page 35

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Hanging like a sword

BY COLIN MILLHAM

Ever since the Group of Five finance ministers met in New York on September 22, the threat of central bank intervention has been hanging like the sword of Damocles over the foreign exchanges.

The Japanese have been the keenest and most vocal advocates of a weaker dollar, in an attempt to head off the strong protectionist lobby in the U.S. and the potential damage to Japanese exporters.

The IMF meeting in Seoul this week brings the finance ministers together again, and the market fears that further measures may be agreed to depress the dollar.

President Reagan is due to meet the Japanese Prime Minister later this month, and the subject of trade and the value of the dollar against the yen will be high on the agenda.

Japanese officials were at pains last week to set a target of ¥200-210 for the dollar, compared with a market level of around ¥150.

The Bank of Japan has been by far the most aggressive central bank on the foreign exchanges, pushing the dollar down to its present value. This is not too far above the target range, but because the Japanese

£ IN NEW YORK

	Oct. 4	Prev. close
Spot	\$1.438-1.439	\$1.438-1.439
1 month	0.48-0.49	0.48-0.49
3 months	0.48-0.49	0.48-0.49
6 months	0.48-0.49	0.48-0.49
12 months	0.48-0.49	0.48-0.49
Forward premiums and discounts apply to the U.S. dollar		

U.S. economic figures have been largely ignored, under the threat of central bank intervention.

August leading economic indicators rose by 0.7 per cent, towards the top end of the forecast range, and the July figure was revised up to 0.7 per cent from 0.4 per cent. Construction spending was extremely strong, rising by a much higher than expected 1.1 per cent, while July

was revised to a fall of 1 per cent from a rise of 1.2 per cent. Factory orders in August were rather disappointing, rising 0.9 per cent, against expectations of around 2 per cent. New home sales fell surprisingly by 5.6 per cent.

Friday was the most important, from the point of view of statistics, when it was hoped employment data would give a guide to economic growth. This quarter gross national product will be revised on October 12. Last month's flash estimate was of 2.5 per cent growth, but Friday's figures were rather disappointing. A rise of 0.1 per cent in unemployment was not expected, but the rise of 128,000 on non-farm payrolls was only about half the anticipated number.

In the end U.S. statistics proved confusing, and there appeared to be little prospect of any early cut in the U.S. discount rate after last week's Federal Open Market Committee meeting. November has been suggested as a possible opportunity for a rate cut, but this will probably depend on money supply coming back within target.

As the week ended the only certainty was that the central bank did not want to see a stronger dollar, but have yet to face up to the problem of U.S. fiscal policy.

FINANCIAL FUTURES

FOUR-DAY (FOREIGN EXCHANGE)

Spot	1-month	3-month	6-month	12-month
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

U.S. TREASURY BONDS (CBT) 5% \$100,000 30-year of 100%

Spot	1-month	3-month	6-month	12-month
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

U.S. TREASURY BONDS (CBT) 5% \$100,000 30-year of 100%

Spot	1-month	3-month	6-month	12-month
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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Spot	1-month	3-month	6-month	12-month
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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

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1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

U.S. TREASURY BONDS (CBT) 5% \$100,000 30-year of 100%

Spot	1-month	3-month	6-month	12-month
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

U.S. TREASURY BONDS (CBT) 5% \$100,000 30-year of 100%

Spot	1-month	3-month	6-month	12-month
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

U.S. TREASURY BONDS (CBT) 5% \$100,000 30-year of 100%

Spot	1-month	3-month	6-month	12-month
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49
1.438-1.439	0.48-0.49	0.48-0.49	0.48-0.49	0.48-0.49

LIFE EURO-DOLLAR OPTIONS

Strike prices of 100%

Strike	Dec	Mar	June	Vol	Dec	Mar	June	Vol
90.00	1.82	1.85	1.85	—	0.00	0.00	0.27	—
90.50	1.83	1.85	1.85	—	0.00	0.17	0.41	—
91.00	0.87	0.87	0.87	—	0.05	0.31	0.60	—
91.50	0.47	0.47	0.47	—	0.15	0.51	0.86	100
92.00	0.18	0.25	0.25	—	0.37	0.79	1.17	—
92.50	0.05	0.12	0.12	—	0.72	1.16	—	—
93.00	0.01	—	—	—	1.16	—	—	—

Previous day's open int. Calls 1,225, Puts 1,287

LIFE 5/8 OPTIONS

Strike prices of 100%

Strike	Dec	Mar	June	Vol	Dec	Mar	June	Vol
1.00	22.50	22.50	22.50	—	0.05	0.50	1.94	—
1.10	15.75	15.75	15.75	—	0.30	1.70	3.11	—
1.20	11.75	11.75	11.75	—	0.50	1.70	3.00	25
1.30	12.00	12.00	12.00	—	1.00	2.70	4.40	25
1.40	8.50	10.25	11.20	—	2.30	4.20	5.10	6
1.50	5.70	7.40	8.50	—	4.00	6.80	8.20	6
1.60	3.40	5.10	6.70	—	10.20	15.50	16.80	5
1.70	1.70	3.40	4.50	—	18.10	25.50	26.80	—

Previous day's open int. Calls 2,151, Puts 13,065

LONDON SE 5/8 OPTIONS

Strike prices of 100%

Strike	Dec	Mar	June	Vol	Dec	Mar	June	Vol
1.20	22.50	22.50	22.50	—	0.05	0.50	1.94	—
1.30	15.75	15.75	15.75	—	0.30	1.70	3.11	—
1.40	11.75	11.75	11.75	—	0.50	1.70	3.00	25
1.50	12.00	12.00	12.00	—	1.00	2.70	4.40	25
1.60	8.50	10.25	11.20	—	2.30	4.20	5.10	6
1.70	5.70	7.40	8.50	—	4.00	6.80	8.20	6
1.80	3.40	5.10	6.70	—	10.20	15.50	16.80	5

Previous day's open int. Calls 2,151, Puts 13,065

PHILADELPHIA SE 5/8 OPTIONS

Strike prices of 100%

Strike	Dec	Mar	June	Vol	Dec	Mar	June	Vol
1.20	22.50	22.50	22.50	—	0.05	0.50	1.94	—
1.30	15.75	15.75	15.75	—	0.30	1.70	3.11	—
1.40	11.75	11.75	11.75	—	0.50	1.70	3.00	25
1.50	12.00	12.00	12.00	—	1.00	2.70	4.40	25
1.60	8.50	10.25	11.20	—	2.30	4.20	5.10	6
1.70	5.70	7.40	8.50	—	4.00	6.80	8.20	6
1.80	3.40	5.10	6.70	—	10.20	15.50	16.80	5

Previous day's open int. Calls 2,151, Puts 13,065

LONDON 12% NOTIONAL GILT

Strike prices of 100%

	Close	High	Low
Dec	98-28	99-35	99-2
March	98-44	—	—
Est. volume	834 (308)		
Previous day's open int.	1,325		
THREE-MONTH STERLING			
£500,000 points of 100%			
	Close	High	Low